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# China Report

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8 April 1986

## CHINA REPORT

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## NATIONAL POLICY AND ISSUES

### PROBLEMS IN MODERNIZATION OF STATISTICAL WORK DISCUSSED

Beijing RENMIN RIBAO in Chinese 7 Feb 86 p 5

[Article by Huang Hai [7806 3189]: "Several Problems in Accelerating the Modernization of Statistical Work"]

[Text] Reform Statistics System, Strengthen Statistical Management by Law

Premier Zhao Ziyang has pointed out: If we can do our work well in statistics and forecasting, China's planned guidance will be greatly strengthened. If the telecommunications system works efficiently, the strategic objective of the four modernizations can be attained ahead of schedule. The Party Central Committee and the State Council have always stressed the need to set up a strong and centralized statistics system and to strengthen the centralized leadership over statistical work, as decided by the objective requirements of statistics as a science and a means of supervision. The science of statistics requires a unified system to ensure that the collection and processing of statistical data as well as the check-up on the dependability of these data are carried out in a scientific and systematic way. Statistical supervision also requires the establishment of an independent system to protect the statistical institutions and personnel from the interference of subjective prejudice, so that they need not have to cover up the objective realities and are at liberty to report on the situation, either good or bad, truthfully. The more vigorous is the development of modern socialist undertakings, microeconomic activities and macroeconomic control, the greater will be the need to strengthen the scientific nature of statistics and the independence of statistical supervision. Only thus can we keep abreast of the overall national situation of economic and social developments, enforce the correct policy decisions and exercise scientific control.

To strengthen the centralized leadership over statistical work, we must first strengthen the State Statistical Bureau and the state's statistics system. The State Statistical Bureau is the functional organ to provide leadership in statistical work and to coordinate such work throughout the country. In addition, it has the heavy responsibility of national economic accounting. Therefore, it should become a powerful inspection and supervisory organ for socialist construction and serve as an information center capable of acquiring and supplying the most accurate and timely statistical information. Like the Auditing Administration, the State Statistical Bureau should independently

exercise its supervisory power in matters concerning the national economic and social developments according to law. Sun Yefang [1327 0396 2455], the famous Marxist economist in China, have on many occasions proposed to the State Council about raising the social status of statistical work, reforming the statistical management system, establishing a strong statistics system, and perfecting the statistical law. Statistical work must have independence in order to be dependable. This, as we may say, is a concise summation of China's experiences in statistics.

There should be a distinctive responsibility system for statistical work. China now has two statistics systems: the national statistics system and the departmental statistics system. The national statistics system is the leading organ to perform the task of statistical inspection for the state along a vertical chain of command. According to the decision of the State Council, the statistics system of the state should be under the leadership of the statistical bureau at a higher level in business matters, and there should be a unified control over the personnel disposition and expenditures. Since the economic and cultural developments are uneven in different parts of the country, the local statistical bureaus, in addition to the work of statistical investigation for the state, should also conduct local statistical investigations for the local government, which should provide the resources and bear the expenses. Along with the development of the four-modernization drive, the statistics system of the state should be extended from the county level down to the districts, the towns and the townships to form a statistical information network. This network will further strengthen the statistical information network of the central cities so that, like the radar stations throughout the country, it can feedback the information on social and economic statistics. The departmental statistics system should be well equipped for the collection, analysis, and dissemination of trade information under the guidance of the national statistical organs of the same level in business matters. The work of the state, the departments and the localities should be clearly divided and well coordinated, and there must be no overlapping. The State Statistical Bureau has the responsibility of strengthening the coordination of statistical work.

In order to organize the statistical work effectively and scientifically, and to ensure the accuracy and promptness of the statistical data, we must also set up and strengthen the statistical management by law. Although the interests of the state, the collective and the individuals in China are basically identical, there are still many contradictions in view of the unhealthy trend of bureaucratism and the abuse of power by cadres for private gains. Especially at a time when the fulfillment of planned targets serves as an important criterion for evaluating the cadres' performance, the reported figures may to a certain extent affect the interests of some departments, localities or units, in which case, there may be a tendency to interfere with the statistical data or to falsify the statistics figures. To strengthen statistical management by law, in addition to a further improvement in legislation (by defining what constitutes a crime in statistics), the key lies in the upholding of law, the strict enforce of law, and the punishment for law violations. First, extensive and in-depth publicity work and education should be carried out concerning statistics law, and the leaders as well as statistical personnel should take the lead in enforcing it. The advanced

collectives or individuals upholding this law by seeking truth from facts should be supported and rewarded, and the violators of the law should be criticized, educated or even prosecuted. The state's statistical organs should frequently check on the enforcement of the statistics law, protect the legitimate rights of the statistical organs and personnel, preserve the sanctity of law, and serve as functional organs in implementing and supervising the implementation of the statistics law.

#### Strengthen the National Economic Accounting System, Improve the System of Statistical Indices

National economic accounting is an accounting of the overall national economy in development. Marx pointed out: While social production still exists after the disappearance of the capitalist mode of production, bookkeeping is more important than ever; it will become social bookkeeping. What Marx called "social bookkeeping" was in fact a national economic accounting. In China, the work of national economic accounting is still far from perfect and unable to meet the state's requirement in its macroeconomic control. We must follow the Marxist theory on reproduction and the law of modern socialist production in the unified application of statistical data for business accounting and for compiling a comprehensive balance sheet which systematically portrays the process, results and benefits of socialist reproduction, and reflects the actual conditions and the pattern of the planned and proportionate development of the national economy to help the state in making correct macroeconomic policy decisions and plans and in exercising its effective control and supervision. In national economic accounting, we should use the Marxist theory of reproduction mainly for the purpose of correctly accounting for the social product value ( $c + v + m$ ), the national income ( $v + m$ ) and the net social income ( $m$ ); reflecting the balance between the proportionate value realized by the different components of social products and the compensation in kind in the process of reproduction; finding out whether the exchange of (I) the means of production and (II) the means of subsistence is adequate for the needs of expanded reproduction; calculating the production, distribution, redistribution and final use of the total social products, the national income and the net social income as well as the proportionate relationship between accumulation and consumption; further reflecting the relationship between input and output in the national economy; and working out the consumption and fruits of labor as well as the income in the service trade or the nonmaterial production sector. We should use the basic theory and methodology of Marxism as our guideline in light of the realities of China's planned development of a commodity economy, draw lessons from the scientific methods of the two major accounting systems of the world (MPS and SNA), and then set up a socialist national economic accounting system with typical Chinese characteristics.

Statistical indices are the figures showing the special characteristics of certain social phenomena. A statistical index system is a series of interrelated statistical indices, signifying the changes in the social phenomena and the innate relationships between them. It is also a system of figures governed by some law. China's present statistical index system is the outcome of the former planned economic system and is biased toward the statistics of real objects in the sphere of material production with little regard for the statistics of commodity value and prices, of economic results



and social benefits, of distribution and consumption, or of the sources and expenditures of funds. The statistics on services in the nonmaterial production sector, on science and technology, and on spiritual civilization development is practically nonexistent. In accordance with the strategic task and strategic priorities set in the 12th Party Congress and in the Seventh 5-Year Plan, we must improve the statistical index system for China's national economic and social developments. To the meet the requirements of international comparisons, we must also greatly strengthen the index system of macroeconomic dynamics so as to help the state step up its macroeconomic control and management.

#### Priority for the State's Automation System of Statistical Information

The use of modern technical information equipment in the statistical system is indispensable in the modernization of statistical work and the modernizations of state management. At present, 96 percent of the statistical information in the state's statistical system is processed and transmitted with the traditional and backward manual operation level by level. In this way, the basic level units and the enterprises can process only a very little information roughly and incompletely. They would have difficulty in conducting more in-depth, more concrete and more scientific analysis and forecasts on the complex phenomena of social economy which requires the use of mathematical methods and models. This is one of the important reasons for the scanty, rough and slow supply of information by the statistical organs.

According to the "Statistics Law," "the state should modernize the techniques of statistical calculations and data transmission." The State Council has also decided that in order to modernize China's industry, agriculture, science and technology and national defense, we must also modernize our statistical work and make every effort to install microprocessors in all statistical bureaus above the county level, and then gradually set up and strengthen a modern system of statistical information processing. These laws were promulgated 2 years ago, but are still not implemented. It must be pointed out that in planning to set up a national automation system for the transmission of economic information, we must first set up a national automation system for the transmission of statistical information for the reason that when the state collects, processes, analyzes and disseminates the economic statistical information, conducts the national economic accounting, and exercises its overall statistical supervision, the national statistical system is the one to process and transmit the largest volume of data that are most complex in nature and most frequently used. It has the characteristics of a public data storage of the state. One of the important ways to accelerate the modernization of statistical work, therefore, is to equip the national statistics system with modern information processing technology, and to let the cadres of the statistics system learn to use and to manage with this technology.

At the same time, we should accelerate the standardization of statistical classification and of the basic statistical work so that the collection, processing, and transmission can be carried out according to a unified standard set of codes which will help increase the accuracy and promptness of statistical information.

## Forming a Large Specialized Statistical Contingent, Raising the Standards of Statistical Service and Supervision

At present, both the size and the competence of China's specialized statistical force are far from adequate for the arduous task sharply increased by the economic reform and the modernization drive. This inadequacy is even more obvious in comparison with the statistical systems of many countries. The personnel of the national statistics system per 10,000 persons in various countries are as follows: the Soviet Union, 8.6 persons; Canada, 2.6 persons; Thailand, 2.2 persons; Norway, 1.9 persons; Hungary, 1.5 persons; Yugoslavia, 1.4 persons; Romania, 1 person; and China, 0.5 person. In China's national statistics system, 80 percent of its personnel have not received any systematic vocational training. The training for the basic level personnel is even less, and their mobility rate is very high. The lack of a strong and steady specialized force is an important reason for the poor foundation and low standards of China's statistical work. It must form a large specialized contingent that is conversant with modern statistics science and possesses various technical skills. This measure has its bearing on the quality of statistical work in terms of service and supervision and on the future of statistics in China.

We must energetically develop and reform the education in statistics. The institutes of higher learning concerned should set up their statistics department or special statistics classes, increase their enrollments, and raised the ratio of statistics graduate students. In the provinces, we should open secondary vocational statistics schools or statistics training centers for the cadres who need not be taken away from their posts. The statistical personnel must have a grasp of political economy, statistics, mathematics, statistics laws, the use of computers and other knowledge. China's statistical contingent should serve the people whole-heartedly, seek truth from facts, and strive for advancement. The state should decide on the authorized strength of this contingent and maintain it in accordance with the statistics law. It must also be concerned with the difficulties in the work, study and livelihood of the statistical personnel.

At present, we should energetically develop the study and application of statistics; make use of the scientific achievements in social economic statistics, mathematical statistics, econometrics, the theories of information systems, cybernetics, and so forth; conduct in-depth investigations and study; and develop statistical analyses and forecasts, in order to improve the quality and raise the efficiency of statistical service and supervision.

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CHINA'S 11 ECONOMIC, TECHNOLOGICAL DEVELOPMENT ZONES

Fuzhou FUJIAN RIBAO in Chinese 20 Jan 86 p 3

[Text] China Has Established 11 Economic and Technological Open Zones

As approved by the State Council, China has currently set up economic and technological open zones in 11 cities.

1. Dalian: The long-range plan is for 20 sq km, but in the first stage only 3 sq km will be developed, located in the area of Maqiaozi Village in Jin Prefecture.
2. Qinhuangdao: The plan is for 1.9 sq km, located between the Datang He and the Xiaotang He.
3. Tianjin: The long-range plan is for 33 sq km, but the engineering project of the first stage comprises only 3 sq km, located near Tanggu close to the Bay of Bohai.
4. Yantai: The long-range plan is for 10 sq km, but in the first stage only 2 sq km will be developed, located in the area east of Fulaishan along the coast.
5. Qingdao: The plan is for 15 sq km, but in the first stage only 2 sq km will be developed in Jiao Prefecture.
6. Nantong: The initial plan is for 4.62 sq km, located in the Fumin Harbor district.
7. Lianyungang: In the near future, it is planned to develop 3 sq km, located in the Zhongyuntai district.
8. Ningbo: The area being developed covers 3.9 sq km, located in the Xiaogang district.
9. Fuzhou: The area being developed covers 4.4 sq km, located in the Mawei district at the mouth of the Min Jiang.
10. Guangzhou: The total area to be developed covers 9.6 sq km, located at the eastern fringe of the Huangpu district, the first stage of development to comprise an area of 2.6 sq km.
11. Zhanjiang: The first stage of development to comprise an area of 2 sq km, located in the Neigang area of the Zhanjiang.

## ECONOMIC DEVELOPMENT ZONES

### BANKS IN GUANGZHOU WITH 3 FOREIGN CAPITAL SOURCES PROPOSED

Guangzhou GUANGZHOU YANJIU [GUANGZHOU STUDIES] in Chinese No 4, Jul-Aug 85  
pp 25-27

[Article by Gu Dunyi [7357 2415 3015], Guangzhou Branch of the People's Bank of China: "Guangzhou Should Actively Introduce and Utilize 'Three-Capital Banks'"]

[Text] The matter of allowing in and utilizing banks that are financed by capital from three sources, namely from foreign countries, from overseas Chinese, and from Hong Kong/Macao ("three-capital banks"), is one that we must mainly study under the aspect of whether banks of this type should be allowed into China at all, to establish branches that would engage in banking business for profit, and also in what way we may profit from them and exercise control over them. This article intends to explore the need for such "three-capital banks," the feasibility of allowing them into Guangzhou, and how to make use of them, and will put forward some ideas that may provoke comments and serve as reference for study and for execution of the scheme.

The strategy for the economic development of Guangzhou has repeatedly been discussed and studied in recent years. General opinion is now fairly uniform that this strategy should be: Based upon its favorable location and special characteristics, Guangzhou should take full advantage of its proximity to Hong Kong, of the large number of its former citizens among the overseas Chinese, and of its many channels for foreign economic activities. It should actively seek the use of foreign capital, capital from overseas Chinese and capital from Hong Kong and Macao, and take a share in the division of labor in the international market. Guangzhou should gradually shift its economy from one that relies mainly on domestic circulation to one that relies mainly on overseas circulation, turning into an even more "opened-up" type of a city, and fully performing the function of a "window" through which advanced technologies will be imported for assimilation and widest use in China. It should also assume the function of a South China hub of a "two-way swing door," opening toward China as well as toward the outside world. These strategic demands and objectives indicate clearly that the vigorous development of foreign economic relations and trade should be Guangzhou's key pursuits. According to revised computations concerning the development plan for Guangzhou's national economy during the Seventh 5-Year Plan, Guangzhou will require a capital of about 12 billion yuan RMB and \$3 billion of foreign

exchange up to the year 1990 for the development of its production and construction. Although this capital might possibly be raised through a variety of channels, such as external accommodation and internal accumulation as well as by support from the masses, a method of primary importance will always remain the large-scale use of foreign capital, and under current conditions this way is showing only comparatively slow progress.

Instituting a new overall situation in the use of foreign capital requires working out many new methods and expending much effort; the active initiation and effective utilization of the "three-capital banks" could be a kind of "miracle cure," getting twice the result with half the effort. Nowadays, capital funds in the capitalist countries are centralized to a large degree; the multinational banks have immense power and have become the core element that controls all industrial capital and operates the large consortia of multinational corporations, dictating the flow of all foreign capital. On the other hand, the domestic markets in the Western countries are currently depressed, and there is a surplus of loan capital, which tries by every means to find an outlet in the Third World. As we understand it, last year, because of the successful settlement of the Hong Kong question, over \$3 billion of American capital and over \$2 billion of Japanese capital was transferred from Western Europe to Hong Kong. Under these circumstances, if we would only handle the situation carefully to our advantage, adopt vigorous steps and measures in bringing in "three-capital banks," allowing them into Guangzhou to establish branch organs and to engage in financial operations for profit, showing them good prospects of future profitability, the result will certainly be that they will be eager to transfer capital to Guangzhou, bring foreign accounts and establish close contacts with the Chinese organs of foreign economic relations and finance. It will also lead to an expanded interchange of information and will effectively help dispel certain misgivings among foreign businessmen who intend to invest in China. The expanded impact abroad is bound to play a considerable role in attracting foreign capital. After some "three-capital banks" will have been brought in, it will be a somewhat complex and arduous task to make the best use of them and to strengthen control over them. We must first of all approach this question aware of the high degree of its needfulness in our strategy for economic development and must undertake a full assessment of the effect and positive results of this scheme and attach great importance to it.

On the question of bringing in "three-capital banks," the state has recently adopted a series of steps, which have already caused quite a stir in international financial circles. First, China has decided to allow, as of 1985, foreign banks to open business offices in Shenzhen. Foreign news agencies have reported this as China's "Year 1 of financial opening-up." Second, China has approved four foreign and overseas-Chinese banks, which had formerly operated in Shanghai, to engage in the business of foreign exchange deposits, lending, and remittances. Foreign commentators believe that this "indicates the beginning of more freedom of action for foreign banks in China." It can be predicted that the situation may soon arise that "three-capital banks" will actively demand to establish branches in all of China's opened-up cities along the coast. In this matter, Guangzhou must analyze what conditions would be most favorable for itself, do a good job of preparatory work, and accelerate implementation of any such schemes.

What are some of the feasible and advantageous conditions that Guangzhou can offer for the entry and utilization of "three-capital banks"? In my opinion, there are at least three:

1. Guangzhou's location and special characteristics are the decisive factors that make Guangzhou one of the most interesting cities for the "three-capital banks." They will find in Guangzhou a comparatively broad field for business activities of all kinds. According to statistics, "three-capital banks" that have currently established representative offices, liaison offices or business offices in China comprise 82 banks from 18 countries and territories, also companies dealing in securities and insurance business, a total of 122 entities of this type. Apart from the 67 in Beijing, Shanghai with 16 offices and Guangzhou with 12 (2 from Hong Kong, 4 from France, 6 from Japan) are those with the largest number. The reason why these two places attract particular attention among foreign financial circles is that Shanghai and Guangzhou are China's most important trading ports and trade centers, with a very solid industrial base and well developed commerce and finance. Already before liberation, banking business of these two cities had been of considerable volume, and the potential for the future development of banking business in these two cities is considerable. Foreign banks that establish branches in China do business mainly with foreign-financed, Chinese-foreign joint venture, and overseas-Chinese financed enterprises ("three-capital enterprises"), especially in connection with projects jointly financed by China and "three-capital enterprises." By its location, Guangzhou is the South China center of all economic relations and trade. It is also close to Hong Kong, a center of international trade and finance. Moreover, the largest number of overseas Chinese are from Hong Kong and Macao, making for many channels of overseas economic relations; it goes without saying that most of the "three types of capital" are therefore invested in Guangzhou. For instance, large-scale investment projects such as the exploration of the Nanhai oilfield and the construction of a nuclear power plant, are apt to attract the attention of the "three-capital banks." In the development of the Nanhai oilfield, Guangzhou will become command center, center of foreign cooperation, equipment manufacturing and maintenance center, materials storage, transportation and supply center, livelihood service center, and the center for interchanges of scientific and technological information and for economic information; even this one item alone offers them bright prospects for active business operations. Furthermore, to achieve the strategic goal of "completion of transformation within 3 years" in Guangzhou's major enterprises, the "three-capital banks" can perform a certain linkage and bridge-building function with regard to the use of foreign capital and technologies. Precisely for this reason, the "three-capital banks" that have already set up offices in Guangzhou, such as the Hongkong and Shanghai Banking Corporation and others, have recently contacted the local branch of the People's Bank and eagerly expressed their intention to establish branch banks in Guangzhou. We foresee that as soon as China opens the gate, other foreign banks will follow one upon the heels of the other.

2. Guangzhou offers an excellent base with respect to all the various working conditions that the "three-capital banks" require. When setting up branch banks in China, the "three-capital banks" will in general demand reasonably favorable working conditions, advanced communication facilities, tourist

opportunities, and availability of employees of a definite quality. Since Guangzhou's "opening-up" has proceeded at a rapid pace, its tertiary industries such as hotels, commercial enterprises, and tourism, have been much developed in recent years and can offer superior conditions in such respects as providing the "three-capital banks" with office and residential accommodations and daily services. Although currently still somewhat backward in communications equipment, there is Hong Kong in close proximity, ready to serve the foreign banks as bridge for the remittance of funds, business contacts and gathering of economic information, which will prove convenient. As to supply of employees, Guangzhou now has a large number of bank cadres and a large workforce of staff and workers. In addition, the institutions of higher learning, Zhongshan University, Jinan University, and the Foreign Language Institute, are continuously training personnel who will be proficient in international finance and foreign languages, thus providing an ample supply of employees of a definite quality.

3. Guangzhou has all preconditions and the ability for the effective administrative control of the "three-capital banks." After entering Guangzhou, we must not only show ourselves adept at utilizing the "three-capital banks," having them effectively perform the function of attracting foreign capital and invigorating the banking business, but we must also carry out the necessary supervision and control of them to avoid sinking into a state of passivity. Presently, Guangzhou's administrative system, including the banking control system, is in the initial stage of transformation and has preliminarily formed a banking system in which the People's Bank is the core and the specialized banks are the main parts. The city branch of the People's Bank has become the organ of administrative control, exercising the functions of the Central Bank. The Guangzhou Branch of the State Foreign Exchange Control Bureau has decided to locate in the same office building as the city branch of the People's Bank, and the post of bureau chief is concurrently held by the head of the city branch of the People's Bank. After the State Council approved Guangzhou as a separate entity in the state plan, the city branch of the People's Bank has the economic control authority equivalent to a province in regard to banking and foreign exchange control.

All this creates extremely favorable conditions for effective administrative control of the "three-capital banks" by Guangzhou. Besides, there are also the examples of Shanghai and Shenzhen to draw lessons from for the control of "three-capital banks"; Guangzhou is completely capable of exercising strict and scientific administrative control over these banks.

Some have expressed the concern that after their entry, the "three-capital banks" will monopolize our financial market. This is an unnecessary concern. New China of today is radically different from the semicolonial China of the past. With a powerful state machinery, we control such crucial sectors as communications, posts and telecommunications, the customs service, and the management of foreign trade and banking. Foreign businessmen no longer enjoy the prerogatives of extraterritoriality or foreign concessions, and there simply is no way for the "three-capital banks" to monopolize our financial market. Furthermore, the more foreign banks entering China the less chance of their being able to exercise a monopoly. China's banking and management methods are currently still somewhat backward and may not be able for a time

to compete with the "three-capital banks"; there is indeed some ground for this concern. As the situation is now, it might be possible to avoid placing Chinese banks at a disadvantage in this competition by making certain arrangements in our policy, in our legislation, or in the scope of permissible business operations for the appropriate protection of the Chinese banks and to impose certain necessary restrictions on the "three-capital banks." However, the Chinese banks must not remain forever in a state of backwardness, and only with competition will there be motivation and pressure to improve. In this sense, exposing the Chinese banks to competition with the "three-capital banks" as regards improvement of business methods, raising work efficiency and quality, will spur the Chinese banks on to a more rapid modernization; we must be said that there is something good and nothing bad about that.

Although we now have at Shenzhen and Shanghai certain experiences from which we can draw lessons for inviting "three-capital banks" into Guangzhou, we must still conscientiously study how to utilize the "three-capital banks" and how to control them. This writer believes that according to the specific conditions of Guangzhou's needs in its strategy for economic development and the fairly rapid pace of its "opening-up," we may be able to consider a greater measure of certain favorable policies with regard to the conditions under which applications are made for the establishment of branch banks and with regard to the scope of permissible business operations, to fully inspire business enthusiasm among the "three-capital banks" and to have them intensify their efforts of importing foreign capital and technologies. In the control of the "three-capital banks," it should be possible to employ a combination of administrative and economic measures, but preferably economic measures, and to limit the use of administrative measures only to cases of necessity. The initiative of utilizing and controlling is completely in our hands. We may, therefore, in the tentative initiation of such measures, be somewhat more generous; as things develop, we can always adjust matters, as specific conditions demand. Some ideas follow concerning the specific matters of which "three-capital banks" should be selected, what scope of business operations should be prescribed for them, and what preparatory work should be done.

1. Selecting the target banks: A large number of "three-capital banks" are now applying for permission to establish branch banks in China to engage in business operations for profit. But we should not at this juncture allow them to rush in like a "swarm of bees;" we must be selective. When making our selections, we must consider such general and basic conditions as financial trustworthiness, possible impact and motivation, and must, as a principle of policy, have a good grasp of the following points: (1) We must note how much capital the main office will remit to the branch as working capital. Prior consideration should be given to those with comparatively abundant working capital. (2) We must note the number of foreign accounts that the applicant will bring along, how many investment projects will be brought about, and on what scale their operations are; those that will bring along many accounts and that will lead to many and large investment projects shall be given prior consideration. (3) We must note whether the applicant will have a great impact on Guangzhou's development of foreign economic relations and trade; those "three-capital banks" that will help improve business relations, the interchange of economic information, and that will set up additional banking agencies in key areas should be given prior consideration. (4) Those whose



entry would accord with reciprocal conditions granted to Chinese banks abroad shall be given prior consideration.

2. Delineating the scope of business operations: According to the methods applied in Shenzhen and Shanghai, the scope of business allowed to the "three-capital banks" mainly comprises deposits, loans and remittances of foreign exchange for foreign customers, plus taking in foreign exchange deposits from officially approved "three-capital enterprises" and granting foreign exchange loans to Chinese state-run enterprises. There are also specific delineations regarding such business operations as foreign exchange remittances and receipts, foreign exchange settlements in import and export trade and the handling of import and export bills of exchange, and a stipulation that the "three-capital banks" must not engage in RMB transactions. I believe that in these respects Guangzhou may suitably take note of the Shenzhen and Shanghai methods but should be more lenient and give consideration to the following: (1) It is generally prescribed that "three-capital enterprises" may establish foreign exchange deposit accounts at designated "three-capital banks" only after approval by the Foreign Exchange Control Bureau. However, if an investment project was brought about by the intermediary of a "three-capital bank," the "three-capital enterprise" in question should of course be able to establish a foreign exchange deposit account with the "three-capital bank" involved. (2) It is generally prescribed that a domestic enterprise or other domestic entity can arrange a foreign exchange credit with a designated "three-capital bank" only after approval by the Foreign Exchange Control Bureau, and that the domestic entities must not handle import and export bills of exchange through a "three-capital bank." Considering the fact that the control of foreign exchange and of foreign economic relations and trade and the customs service are all in our hands, and considering the further fact that the "three-capital banks" generally examine and carefully verify the financial reliability of their customers, it should be possible to relax the provisions and allow domestic enterprises that have foreign exchange receipts and expenditures to arrange foreign exchange loans and import bills of exchange directly with a "three-capital bank." (3) It is generally prescribed that "three-capital banks" must not handle deposits or loans in RMB, but in the interest of using their organization, personnel and equipment to the fullest extent and also of promoting normal competition between banks with regard to better quality of service, the "three-capital banks" should be allowed, as long as they themselves on their own initiative want to undertake the business, to serve as agents for domestic banks in handling RMB deposit, loan, and savings account business, the domestic bank in such cases having to pay them a certain agency commission, which they may be allowed to use for expenditure within China. (4) While we appropriately broaden the scope of business operations of the "three-capital banks," we must strengthen control. Apart from the necessary administrative control, we must primarily exercise control through economic means: From out of the foreign exchange deposits, the "three-capital banks" should turn over to the People's Bank a certain proportion as a deposit reserve fund; interest on such deposits should be computed at rates fixed by the Bank of China. The rates for foreign exchange loans and the discount rates may be determined by the banks themselves, but should be reported to the Foreign Exchange Control Bureau for their record.

3. Preparatory work: The importation and utilization of "three-capital banks" must be pursued with great zeal, to be mainly demonstrated as follows: (1) Close attention must be paid to all relevant laws, decrees and regulations that have been drawn up and promulgated. A perfect legislation will enable the "three-capital banks" to better understand China's policies and administrative system, allowing them to plan their organizational setup according to law and to properly plan the development of their business operations, as it will also provide us with laws as guidance in our controls. The head office of the People's Bank has now drafted "Regulations Governing the Control of Foreign-Financed Banks and Banks with Joint Chinese-Foreign Capital in the SEZs of the PRC (Draft)," which has been submitted to the State Council for approval. Guangzhou may follow the provisions and the spirit of these "Regulations," and, integrating them with the specific conditions of Guangzhou, draft similar regulations and submit them to the State Council for approval. Furthermore, prior to unified enactment by the central authorities of a foreign exchange control law, a mortgage law, and a law on negotiable instruments, Guangzhou could also draft certain provisional regulations according to prevailing policy and institutions and submit them to the State Council for approval. (2) We should bring together a number of experts, scholars and intelligent and capable cadres from various sectors and, on the one hand, organize a specialized group to be responsible for the investigation, research and counseling work concerning "three-capital banks," the result of which should serve the leadership as reference when making policy decisions. On the other hand, we should replenish the staff of the financial and foreign exchange control departments of the city branch of the People's Bank to enhance the work of initial examination and approval of "three-capital banks" to be allowed in and for future control work. (3) We must accelerate and perfect the construction of telecommunications installations, to speedily create the favorable conditions for a rapid development of Guangzhou's banking affairs, for the period following entry of the "three-capital banks." (4) As regards office accommodations for the "three-capital banks," residences for their staff and general arrangements for their livelihood, a certain amount of planning must be done in advance so that these facilities can be offered when needed.

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## ECONOMIC DEVELOPMENT ZONES

### LIANYUNGANG MOVES TOWARD EXPORT-ORIENTED OPERATIONS

Fuzhou FUJIAN RIBAO in Chinese 20 Jan 86 p 3

[Article by Wang Qiang [3076 1730] and Ye Douwen [0673 2435 2429]: "Import, Transform, Shift Direction, Create Foreign Exchange--Lianyungang Establishes Initial Scope of an Export-Oriented Economy"]

[Text] Since opening up to the outside world, Lianyungang Municipality in Jiangsu Province has imported advanced technology and equipment to have several of its old enterprises progressively shift from a domestic to an export orientation, achieving a marked increase in export and foreign exchange earning capability. Its experiences were as follows:

1. In imports from abroad, Lianyungang has emphasized the transformation old enterprises, using advanced international technologies to transform key enterprises and to develop the manufacture of "hot-selling" products. Within a little over 1 year, imported technologies and equipment were used throughout the city for 44 transformation projects in 23 enterprises, initially creating a series of factories specially manufacturing export articles for foreign trade.
2. Foreign capital was directly used to import advanced equipment. Within a little over 1 year, Lianyungang used \$8,200,000 of foreign exchange, and in the form of its business operations changed from compensation trade to Chinese-foreign joint ventures, cooperative management and the processing of imported materials. Joint venture relations, formerly with only Japan, have now expanded to 26 countries on 5 continents.
3. Lianyungang has established production bases to ensure the supply of raw materials for the manufacture of export commodities. Lianyungang made best use of its own favorable conditions and set up 10 large agricultural and sideline products export bases for high-quality grain and oil, lean pork, high-grade poultry and eggs, high-quality vegetables, flowers and plants, and established more than 100 complementary export production and processing network stations.

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## ECONOMIC DEVELOPMENT ZONES

### UPDATE ON TIANJIN ECONOMIC DEVELOPMENT ZONE

Beijing LIAOWANG [OUTLOOK] in Chinese No 52, 30 Dec 85 pp 26-28

[Article by Meng Zijun [1322 1311 0689] and Mei Minhui [2734 2404 1979]:  
"Cautious Start at the Tianjin Economic Development Zone"]

[Text] We were told by the Special Development Zone Office of the State Council that among the 10-odd cities which were opened up along the coast, the Tianjin economic development zone [EDZ] had some very special features, giving people the impression of a cautious start, emphasis on actual results, flexible and adaptable policy, and energetic management. To find out the actual situation, we recently travelled to the Tanggu area and visited the Tianjin EDZ, which is 50 km from the center of Tianjin.

On the way, the director of the Office for EDZs told us that this area was once one large expanse of a brine-filled salt field. Today it is quite a different picture that meets the eye: There is no more water on the 3 sq km of the initial EDZ. It is a stretch of flat land, crisscrossed by several blacktop roads. Work has already started on the 17 items of capital construction, which will cover 100,000 sq m of the main construction site, and erection of 2 standard factories and 1 special-purpose factory, occupying an area of 23,000 sq m is already going up. We were told that a tight network of pipes and wires for telecommunications, electricity, heating, water supply and sewage has already been laid out underneath these buildings like a spider's net. We also understand that the EDZ has signed contracts for 21 joint venture and joint management projects with parties from the United States, France, Denmark, Japan and Hong Kong, of which 20 projects will be in full operation at the end of next year, and of which the Danhua Bicycle Factory, a joint venture with the Danish [Yadi] Company, will start production in the near future.

I. In April of last year, Comrade Gu Mu came to Tianjin on an inspection and transmitted the directives of the CPC Central Committee and of the State Council regarding the opening up of 14 more cities and the setting up of economic and technological development zones. The various cities involved responded by starting up work, one after the other, each one eager to be ahead of the others in this competition. In view of this situation, Chen Weida [7115 0251 6671], the incumbent first secretary of the municipal party committee at that time, and Mayor Li Ruihuan [2621 3843 3883] mentioned on

more than one occasion that the lessons and experiences of several decades have proven repeatedly that the key to successful construction is the clear definition of a guiding policy and a well-worked out plan. With a correct policy and a realistic and feasible plan, an economic and technological development zone, even if started somewhat late, can be a great success. In all undertakings, preparation must precede actual execution of work, otherwise even speed will not lead to results. The leadership of the Tianjin EDZ had therefore adopted an attitude of great caution. After an inspection tour of Shenzhen, they were convinced that since Shenzhen was adjacent to the large consumer goods market and international transfer station of Hong Kong, with more than 27,000 people moving into Shenzhen every day, these facts were decisive for Shenzhen to start out with the development of the tourist and real estate industries. On the other hand, Tianjin in 1 year has not as many visitors as Shenzhen in 1 day. However, Tianjin has its own strong points, namely: Tianjin has more than 4,600 industrial enterprises, making it the largest industrial base in North China. Its industries, furthermore, comprise almost the whole range, namely 154 out of the national total of 165 branches. The chemical, metallurgical, machine-building, medical and pharmaceutical industries, all have a solid foundation in Tianjin. The area of its foreign economic cooperation is extremely broad, and foreign businessmen will all be able to find most ideal business partners in Tianjin. Even more valuable is the presence of a work force, proficient in matters of investment and in business management, and a well-trained contingent of workers. In the face of so abundant an industrial base and of the favorable manpower conditions, they have soberly realized that there is no other way for the development of the Tianjin EDZ than to take the road of a primarily industrial development.

In what way should the EDZ be built up? Oriented toward foreign trade or toward the domestic economy, or with a "double-faced" orientation? The organizers of the EDZ have given this matter a lot of thought. They studied many experiences and drew many lessons from economic zones in operation in China and abroad, analyzed the various advantages of Tianjin as a large industrial city located on the coast, and concluded: The developmental strategy for the Tianjin EDZ must be one oriented toward the world; it must utilize and digest as much foreign capital, technology and managerial expertise as possible. While doing an effective, step by step shift toward the domestic economy, it must infiltrate the international markets with its own products, participate in the international competition, and earn foreign exchange for the state. Having reached this conclusion, the guiding policy of "an economic and technological development zone, primarily based on industry and oriented toward the outside world," was in this way accepted for Tianjin.

The same cautious attitude was displayed in selecting the location and in the measures and arrangements for the developmental constructions in the EDZ. To select the location, Tianjin Municipality detached over 40 specialists and scholars to form a planning team for the selection of the location for the EDZ. Their principle was: closeness to the city, good communication and transport facilities, proximity to a harbor or port area. After on the spot surveys and repeated discussions and deliberations, a plot of salt fields along the sea east of Tanggu Prefecture was selected as the most suitable plan among several plans. The total area of the EDZ is 33 sq km; it borders in the south on Tianjin-Xingang, in the north on Beitang township of Tanggu

Prefecture, in the east on the Haifang highway, and in the west on the Beijing-Shanhaiguan railway line. The area is distinctly delineated, which facilitates all aspects of administration. The EDZ is 50 km distant from the city proper of Tianjin, and excellent communications and transport services make it easily accessible. Transportation by railway over the Beijing-Shanhaiguan line connects it directly with the entire railway network of the country. In the south, work on the Beijing-Tianjin-Tanggu expressway will be started next year, which on completion will establish a continuous highway line between Tianjin-Xingang, the EDZ, the city proper of Tianjin and Beijing. There is also the Tianjin-Tanggu harbor-transport highway, the Tianjin-Tanggu highway and the Yang-Bei highway, all linking up with the country's entire highway network. Two kilometers to the southeast is Tianjin-Xingang, with shipping connections to over 150 countries and territories, and the EDZ is 30 km south of the Tianjin international airport and connected to it by an expressway, facilitating airfreight transportation. There is also the Haihe, enabling shipments by inland waterway to the city proper of Tianjin.

Other reasons for the selection of this location for the EDZ were that it can count on some assistance from the old city area, so that no new installations are needed for water, electricity, gas and communications, which greatly reduced the expenditure for basic constructions. These conditions will make it easy to get started in the near future, as they also provide unrivalled possibilities for the development of the EDZ in the more remote future.

As to the pace of the development, no one had the idea that it could be achieved in one move, but that it was necessary to be circumspect and farsighted. Starting out from the current state of finance, materials and manpower, they conceived the EDZ as a project to be planned as a process over a longer period of time, a development in three stages over 30 years. The first stage of the development, according to plan, is from 1985 to 1988. In these 4 years, 3 sq km are to be developed, and more than 150 enterprises are to be set up for the development of electronics, mechanical and electrical engineering, fine chemistry, new materials and new technologies, with a complement of 25,000 workers and an annual gross output value of 1.5 billion yuan. The second stage is from 1989 to the end of this century, a period of about 10 years, to develop 10 sq km and to achieve a coordination of the development of the EDZ with the harbor construction. In the third stage, a period of 15 years from the end of this century to the year 2015, the construction of the entire EDZ is to be completed, with a capacity of producing a gross industrial output value of from 15 to 20 billion yuan.

Even for the capital construction on the initial area of 3 sq km, the leadership of the EDZ is meticulous in their planning and dispositions. Due to current limitations of funds and materials, the key tract under development is an area of 1.9 sq km, which will be developed in the form of a "rotational development in sections" in four separate steps. The so-called "rotational development in sections" means that after laying the underground pipes and cables for electricity, heating, communications and sewage, there will be no immediate rush to complete all surface installations, the above-ground lines, branch pipes, earth filling, but the supplementary work of above-ground installations will be carried out as required by the contracts that have been or will be signed and the actual needs to start up certain projects. This

procedure will avoid, in these times of financial stringency, spending all the money on the foundations, leaving no funds for investment projects or for factory construction. It will also save much time and in effect be an instance of "developing one sector, building up one sector, and reaping benefits from one sector."

II. At the Tianjin EDZ most talk was about the construction of the various industrial projects.

Indeed, the realization of the macroeconomic objective and plan will only be possible by starting up industrial enterprises, having them go into production and reaping benefits from them. The leadership of the EDZ clearly understood this point right from the beginning. The Industrial Investment Corporation, specially in charge of projects for the EDZ, has therefore, already started negotiations with foreign businessmen and taken up contacts with various quarters. In December of last year, when approval was received from the State Council, they were already working on several projects.

The EDZ has indeed its own criteria and strategy as to which projects to choose and on what general objective to concentrate.

First, there is the demand that whatever is produced must be suitable for export and yield foreign exchange. For instance, all the 19 projects for which joint venture contracts have been signed will be able to achieve a foreign exchange balance on their own. Among these items, 10 products will have a buy-back ratio of up to 80 percent and for two projects this rate will be even 100 percent. In this way, the EDZ will in its initial stage establish its industries on the basis of international competition and also be laying an excellent foundation for the future development of an accumulation fund. All these projects, excepting only one, are for medium and small-scale enterprises with investments of less than \$3 million; their investments can probably be recovered in 3 or 4 years. It is possible to predict that as soon as these projects with their high yield of foreign exchange and quick recovery of investments will start up production, the EDZ will steadily grow in actual strength.

The EDZ is also establishing important criteria for the selection of items for the promotion of technological transformation in old enterprises in Tianjin and for the adjustment of Tianjin's industrial structure. Recently, aiming at the backward state of the basic techniques in Tianjin's industries, they signed agreements with foreign parties for molds and dies, hard disks for computers, and certain transmission parts for turbines as the first lot of projects. Once these items will be in production, they will have an encouraging effect on the renovation and updating of Tianjin's industrial products and as a consequence their competitiveness in the international market will be enhanced.

The Tianjin EDZ is at the same time attaching greatest importance to the importation of high technology, which it is now firmly taking in hand as a strategic item. For instance, there will be a joint venture with an American party for the manufacture of a new drug for the diagnosis of cancer--monoclonal antibodies. This is a knowledge- and technology-intensive product;

it is the crystallization of high-level theoretical and scientific research. Among the other contracts that have been signed there are several similar items of high technology.

III. A member of the administrative committee of the EDZ and its general secretary told us the following story:

Multilayer printed boards are indispensable components of modern computers, communications and for the war industry. However, China can currently only manufacture the single-layer boards, which are components in radio receivers, tape recorders and television sets. A Tianjin factory had negotiated with an American company for the importation of the technology and equipment for the manufacture of multilayer boards, to be produced as a joint venture, but for 2 years the factory was unable to finance the project. After the EDZ was set up, they proposed to transfer this project to the EDZ. When the comrade in charge of projects got hold of this truly "hard to come by" project, he quickly established effective channels for credit. As soon as informed of this, the foreign party hurried to the EDZ, settled all matters, and, after both sides had reached an agreement, was most eager to get a clear idea of the exact date when the factory building would be finished and ready for use. On the next day, the manager of the construction company gave the foreign businessman the guarantee that the building would be finished and ready for use in half a year. That evening, the engineer of the building designing office worked throughout the night to produce the blueprints for the factory building according to the specific demands of the foreign businessman. On the third day, the foreign businessman was highly pleased with the plans and said full of surprise and admiration: This is rare work efficiency. It actually took only 3 days to get the contract signed for a project of such great importance.

We asked: "How was so efficient a work system set up?"

Without hesitation he said: The reason is that the State Council adopted a special policy for the EDZ, in addition to certain decision-making authorities granted us by the municipal party committee and the municipal government. In the current process of reforming China's economic structure, reforms in the EDZs can be somewhat in advance of reforms in other sectors and involve a comparatively larger measure of self-determination.

Even though the Tianjin EDZ is a unit directly under the leadership of the municipal government, the EDZ has authority to examine and approve projects with an investment of less than 20 million yuan. It has also authority to approve sending personnel abroad. It may also directly direct letters of invitation to foreign businessmen. They have also considerable authority for planning and constructions over small areas of the EDZ, without being required to submit a report and await permission from other departments in the city.

The flexible use of all these rights and policies to open up avenues for the various activities of the EDZ is only possible with a resolute and strong leadership system of the EDZ itself, while the unification of the management structure is an effective means to strengthen the leadership. The EDZ administrative committee is the leading organ in control of all affairs. It



decides all important affairs, such as concerning relevant investments, the signing of contracts and affairs of overall management. It also employs the scientific methods of system engineering in organization and management. It also sets up specialized and forceful business operational groups of some power, which are to ensure the smooth progress of all business activities of the enterprises in the EDZ, such as construction, capital and material supplies, labor and general services.

These special policies and the unique management structure practiced in the Tianjin EDZ greatly simplified work procedures, raised work efficiency, and, furthermore, created excellent preconditions for the reform of certain work methods which are incompatible with the high efficiency and high effectiveness of work in the EDZ.

For a long time, China's construction industry has had two problems for which a solution could not be found: One was that costs would not go down, and the other was that quality would not go up. The main reasons for this phenomenon were--aside from reasons of technology--the irrational way of collecting designing expenses (the higher the building costs, the more designing expenses) and administrative supervision and control. However, over the last year, engineering work at the Tianjin EDZ was not only performed speedily, but also at high quality and at a relatively lower cost compared to similar work elsewhere. What was the reason? Because here it was energetically promoted to have the managerial measures of building designing, construction itself, supervision and control of quality all performed in one continuous process of management and linked to economic benefits. This method, first of all, instituted an overall contract system for construction designing and execution of work, so that engineering costs and completion times were rigidly fixed by contract. The designing was undertaken by the EDZ's construction designing office. The designers could as far as possible use new technologies and new techniques, in order to lower the costs and shorten work time. Contracting for actual construction work was done by the method of inviting tenders, and the successful unit would have to complete work according to quality and work times specified in the construction plan, otherwise, the unit would be liable to compensate for economic losses. To strengthen quality control, the EDZ set up a supervisory and control company, and it is this company that would undertake to invite in experts from among the general public to do the supervising and controlling. In case of any quality problem, they would have the power to order work stoppage or redoing faulty work and to assign economic responsibility. This is a change from the method of having party A supervise and control or administer supervision and control, and to have this work now rather carried out by a third party, i.e. institute supervision and control by society.

This method of contracting for the whole continuous process has on the one hand the beneficial effect of saving investment and reducing costs, and on the other hand, of enhancing the quality of the engineering work. Because designing and actual construction are contracted for at the same time, costs can be immediately computed, and this gives added initiative to our side in negotiations with foreign businessmen. For instance, in the case of the special-use factory building for the Danhua enterprise, set up as a joint venture with the Danish [Yadi] Co. for the manufacture of bicycles, the structure occupied an area of 11,000 sq m and was constructed in the short time of only 4 months. The quality, furthermore, was completely in accordance with the requirements of the design. When our friends from Denmark saw this, they unanimously praised the accomplishment and considered it on par with all the world's first-class factory buildings.

## ECONOMIC DEVELOPMENT ZONES

### LAND RENT, DEVELOPMENT FEES IN GUANGZHOU EDZ

Guangzhou NANFANG JINGJI [SOUTH CHINA'S ECONOMY] in Chinese No 5, Oct 85  
pp 26-28

[Article by Feng Lei [7458 5623]: "Some Questions Regarding the Land Rental and Development Fees in the Guangzhou Economic Development Zone"]

#### [Text] 1. Raising Some Questions

Since the initiation of the Guangzhou Economic and Technological Development Zone [EDZ] in 1984, work of a certain initial scope has been successfully accomplished in land development and in the construction of the so-called "seven components" of the infrastructure. On 9 April of this year, furthermore, "Provisional Land Regulations for the Guangzhou EDZ" were promulgated, prescribing the following land rental fees for the use of land in the EDZ:

Land for industrial, communications, transportation purposes . . . . .	2	yuan/sq m
Land for scientific and research purposes. . .	1	" "
Land for commercial, service trade, warehouse and storage purposes. . . . .	12	" "
Land for purposes of tourism . . . . .	9	" "
Land for residences built for commercial purposes . . . . .	8	" "

However, we have found, on preliminary examination, that there are aspects in this system that are not yet altogether satisfactory and would be worth further consideration.

First, the nature of the EDZ's land rental fee is not clear. This fee is levied every year from the users of the land, therefore, judging by the form of the levy, it seems to be in the nature of a land tax. However, the EDZ land rental fee is financially controlled by the EDZ and used for the reproduction of the municipal administration's infrastructure and the

expansion of such reproduction. If we, therefore, judge by the form of its administrative jurisdiction, it is again not of a tax nature. Where then does this rental fee belong? How are we to determine its administrative form? These are questions which the EDZ has so far not yet clarified.

Second, there is no rational basis for the rates at which the EDZ land rental fee is charged. The Guangzhou fee is charged at 80 percent of the rates in the Shenzhen readjustment program of December 1984, which is taken as model, but the Shenzhen land rental fee was merely fixed according to land rental rates charged during the initial period, when that area was still only a processing zone for exports to Southeast Asia; it has never been theoretically assessed and affirmed. As a result, it was adjusted and readjusted again and again after its promulgation, and lost all appearance of stability. If the Guangzhou EDZ takes the Shenzhen land rental fee as its model in determining its own land rental fee, it will not only equally lose its stability, but also its independence. Moreover, looking at the figures currently published as the rates of rental fees, these fees are particularly low and insufficient to support the simplest reproduction of municipal infrastructure, not to speak of any expansion of such reproduction; they will also not be sufficient to support the proper supervision of the land to ensure that it is used rationally.

Third, the Guangzhou EDZ's land rental fee is promulgated only in the form of a "preliminary regulation," without effect of law, and this will be the source of much unnecessary trouble for the EDZ, such as defaults in payments, prevarications, etc.

The key to the series of problems created by the EDZ land rental fee are the misconceptions in such questions as the principle of compensated land use in socialism, the method of computing land rents in socialism, etc. There is also the question of the land development fee in the Guangzhou EDZ, which was basically fixed at 225 yuan per sq m. The manner in which this charge was fixed is also somewhat questionable and would appear worth further deliberation. The following are some ideas which I humbly present with regard to these questions.

## 2. Theoretical Basis for the Collection of Land Rental Fees in the EDZ

The compensated use of land presupposes the existence of land tenancy. The question then is: does this economic category, land tenancy, still exist in the socialist public ownership system of China?

First, in the stage of commodity production, which China is currently still going through, each producer of commodities has relatively independent economic benefits and demands that all exchanges of commodities are carried out at equal value. The means of production, being commodities, can also not be used or occupied without compensation. This is a consequence of the inequality of economic benefits under the conditions of commodity economy, and is one of the premises for the compensated use of land. Second, land ownership still exists in China. The socialist system of public ownership merely replaced private ownership of land, but did not abolish land ownership as such. At China's current stage, land is owned either by the state or by

the collective, and there is a division of the ownership of land and the use right of land. To evidence the state ownership of the urban land under the conditions of commodity production, it is therefore necessary to charge the commodity producers who use the land of the state a certain fee, which now, in the case of the EDZ, is called "land rental fee." This is in all respects a result of the monopoly of land ownership; it is also the "absolute rent" in Marxist literature.

Under the conditions of socialism in China, there is not only absolute rent, but also differential land rent. Absolute rent is the precondition for differential rent, but the reason for differential rent is the monopoly of the land use right. In China, land is limited, especially good land. As soon as the commodity producer obtains the land use right, he, therefore, obtains the monopolistic right of use of that particular piece of land. This monopolistic right of use will later yield profits for the commodity producer. There are, first of all, differences in soil fertility and in distances from markets (especially important in the case of land rent in built-up urban areas), so that even with differential land rent, the land will yield unequal profits. Second, because the same amount of investment may have different effects on different pieces of land, the consequence will be that the same investment may yield different economic results. In the socialist society, the commodity producers are the masters of the country; they have the status of legal persons and have the right to demand equal production conditions and equal competitive opportunities. When there is differentiated land income, one should therefore levy a differential land rent that will go to the state, in order to balance out the unequal benefits created by natural conditions. We should therefore include in the land use fee a differential land rent.

On the question of compensated use of socialist means of production (including land), Engels in his book "On the Housing Question" had very early on pointed out: "...these houses, factories, etc. would hardly be allowed to be used--at least in the transitional period--by individuals and associations without compensation. Equally, the abolition of private property in land is not the abolition of ground rent, but demands its transfer--although in a modified form--to society. In any case, the ownership of all tools of production by the working people, does not, therefore, preclude the further maintenance of renting and leasing." (Footnote 1) ("The Selected Works of Marx and Engels," Vol 2, pp 544-545) Moreover, in a place so closely linked with foreign parties as the Guangzhou EDZ, the division of land ownership and land use right occurs between China, a socialist country, and capitalists of foreign countries. In this case the land ownership right appears particularly important, and its demand in economic respects of growing intensity.

### 3. Quantitative Determination of EDZ Land Rental Fees and the Form of Their Administrative Management

Land use charges in the EDZ comprise absolute rent and differential rent, in other words, land use fee = total land rent. As to the computation of land rent in urban built-up areas, Marx pointed out in "Das Kapital" Vol 3: "As to lands used for buildings, Adam Smith has explained that the basis of their rent, like that of all land not employed in agriculture, is regulated by the agricultural rent." (Footnote 2) ("Das Kapital," Vol 3, p 371) Furthermore,



regarding this part of funds and will also be beneficial for the financial administration of the EDZ.

(2) The quantitative determination of the land tax is based on the current agricultural land tax; prescribing uniform land tax rates and differential land tax rates, by sectors of land and by types of land use, would be beneficial for the institution of a quantitatively well-proportioned land administration by the EDZ of all the various grades of land. Moreover, since the land tax would have an accurate value base, it would not lead to any irrational softening in the collection of fees merely for the sake of attracting foreign capital and would ensure obtaining a rational revenue for the nation's land.

(3) Taxation would be promulgated in the form of law; it would be protected by law and duly supervised in its implementation. It would have a much stronger mandatory character than only general rules and regulations, and thereby prevent or reduce cases of procrastination of payments in whatever form, as it would also facilitate the land administration in the EDZ. Furthermore, the articles of a law are of a relative stability, so that changing the land rental fees into a land tax would certainly lend greater stability and independence to the norms governing rental collection and bring about a combination of EDZ's general administration, economic administration and judicial administration to form an independent system of land administration in the EDZ.

(4) Foreign businessmen coming to China to invest must overcome many psychological obstacles. Their greatest anxiety is a possible instability of policy. They demand solid legal provisions for the protection of their legitimate rights and interests. For the Guangzhou EDZ, with its many foreign relations, the enactment of a perfect legal system is undoubtedly most important in its efforts to attract foreign capital. The replacement of the land use fee by a land tax would therefore impart the nature of law to all of the EDZ's administrative measures of economic control, which would instill more confidence among foreign businessmen in the construction of the EDZ. Moreover, collection of a land tax by the EDZ would be a procedure similar to practices abroad, therefore also beneficial toward breaking down the psychological aloofness of foreign businessmen coming to China to invest.

#### 4. The Value Base for the Land Development Fee in the EDZ

Another important question in the land administration of the EDZ is the question of computing and administering its land development fee. The land which the EDZ provides to its land users is land that has been built up by the development of the "seven-and-one components" of the infrastructure. When obtaining the land use right, the user must therefore pay to the EDZ the costs expended on the land development and a certain profit, which altogether is called the land development fee. This includes: the compensation paid to the peasants by the state for the expropriation of the land (composed of land compensation, crop expenses, resettlement fees, irrigation compensation and building compensation), the costs of providing the "seven-and-one components" of the infrastructure, loan interests and a certain rate of profits. It is not difficult to see that the land development fee of the EDZ corresponds to the

Hong Kong "assessment of rental" (what is generally called the land value). However, when we look at the 225 yuan per sq m, which is the current standard fee prescribed by the Guangzhou EDZ, this small fee simply cannot be mentioned in the same breath as a true land value. In Hong Kong, not even considering the Zhonghuan district with its enormous land values, but rather considering the land of the New Territory, where conditions are similar to Shenzhen, the prices at which land was transacted in January of 1984 were: highest price for industrial land 1,123 yuan per sq m (converted to RMB) and lowest price 528 yuan per sq m; highest price for residential land 460 yuan and lowest price 134 yuan per sq m; and for nonindustrial land 3,379 yuan per sq m. Even in the Bagualing district of the Shenzhen special economic zone [SEZ], which has an investment environment that is inferior to the Guangzhou EDZ's land, the land development fee is 233.9 yuan per sq m, while the compensation for expropriation of Shenzhen land was much lower than in the Guangzhou EDZ, and the "three-and-one component" infrastructure expenditure was levied as part of the land use levy. Under these conditions, the development fee at Shenzhen was still higher than in the Guangzhou EDZ; what could be the reasons for that?

In our investigations we found out that the reason for fixing the Guangzhou EDZ's land development fee so low was, first of all, that the EDZ, at the time of fixing the fee, had adopted as its guiding ideology to be below Shenzhen and Guangzhou City, only intent on attracting foreign capital and without any idea of reciprocity and mutual benefit. A low land price, therefore, was, right at the beginning and made for favorable terms of treatment, the development fee and its rates were amended downward, and the current 225 yuan per sq m arrived at. However, when instituting a policy of favorable treatment in the EDZ, we must realize that those who come to China to invest will rather primarily consider the stability of the political situation and of policies, secondly whether the investment land has a strong industrial base, and thirdly, whether the investment area is well linked up with the hinterland, i.e. whether it will be possible to open up a broad domestic market. Fourthly the will pay attention to whether the investment area has a complete infrastructure and also whether the leadership of the administrations at all levels are free from antiquated ideas. Thus, the land development fee will not play the important role in the investment environment as imagined by the EDZ leadership. Furthermore, the Guangzhou EDZ is in all the above respects in a better position than the Shenzhen SEZ and the city of Guangzhou, so that it may not be so generous with favorable terms in the form of low development fees and still achieve the objective of attracting foreign capital.

These are some question concerning the ideology that guided the determination of land development fee rates, but even more important and of a more direct effect is the somewhat irrational computation of the land compensation paid to the peasants, a problem which also exists in other zones.

The expropriation of land from the peasants in the Guangzhou EDZ actually amounts to a transfer of the ownership right from the hands of the collective peasants to the hands of the state. The expropriation fee, therefore, amounts to the price at which the peasants transfer the land (although China's "Land Law" has no provision for sales, or prices), and the land value is capitalized land rent:

$$\text{land value} = \frac{\text{land rent}}{\text{bank interest rate}}$$

However, the Huangpu Xingang area in the Guangzhou EDZ is famous for always producing excellent crops of such fruits as high-grade bananas and sugarcane. If the expropriation would have rigidly applied the "Enforcement Regulations Regarding the Expropriation of Land Needed for National Construction and for the Demolition or Removal of Houses in Guangzhou Municipality," which include the provision that compensation should be calculated at 6 to 7 times the value of the annual agricultural production, for which the average annual production value of the 3 years prior to expropriation is to be taken as criterion, it would mean in the Guangzhou EDZ using the average annual value of the period from 1981 to 1983. However, there has been an upward tendency in the current domestic market prices for fruit. For instance, the average annual market price of sugarcane during the period 1981 to 1983 was fluctuating between 0.8 [as published] to 0.12 yuan per jin, but had risen to between 0.12 and 0.20 yuan per jin in 1984, while there was no corresponding change in the expropriation compensation paid by the EDZ. The peasants, of course, were the losers, and the beneficiary was not the state, also not the zone's finances, but the actual users of the zone's land, which means, the Chinese-foreign joint ventures, cooperative management enterprises and some enterprises with hinterland connections. To avoid an irrational situation like this, an accurate basis must be established for the value when computing compensations for expropriations. It means, first of all, to fix the overall rent for the EDZ (according to the method previously described), divided by the bank loan interest rate for the years in question; this should result in a more rational expropriation compensation, since the current rate in the EDZ of 20,100 yuan per mu is too low. We must have a clear understanding in this matter, because the past method of relying on picking on the peasants to develop our industrialization won't do in today's modernization construction.

Another important component in the development fee is the compensation for investments for the construction of the land's infrastructure. This is so because: first, under the current conditions of commodity economy in China, the infrastructure in urban areas is also of a commodity character, for which compensation may be demanded according to the principle of exchange at equal value. Second, urban construction is an important sector of material production in the society, which must have its regular channels of value compensation and circulation processes. Third, the users of the urban infrastructure are the real beneficiaries, and under the conditions of commodity production, compensation for the infrastructure manifests a discrepancy of various economic benefits in society. Therefore the investment in the urban land demands that a compensation be obtained as a part of the development fee. The current investment in infrastructure in the Guangzhou EDZ, calculated at the current market prices, is estimated at 160 yuan per sq m. However, since "assessment of rental" was not completed at one time for all the land of the EDZ, but will take 5 years according to estimates, consideration must also be given to the changes due to commodity price changes in the domestic market and the international inflation rate.

In the Guangzhou EDZ, the investment in the infrastructure was financed by



bank loans. It is therefore necessary to include in the development fee a proportionate part of the compensation for bank interests. The current bank loans in the EDZ are obtained at an interest rate of 4.2 percent, but the "assessment of rental" period is estimated to be 5 years. When calculating the amount of interest, the changes in the interest rates of the market have to be reflected. Furthermore, the Guangzhou EDZ relies mainly on foreign capital, and the interest rates on the international money market, even under the most favorable conditions are far above the domestic level. For instance, the prime interest rate of the Hong Kong commercial banks in 1984 was 12 percent; on 21 January of 1985 it was 10.5 percent. Taking this factor into consideration under the current conditions of a shortage of funds in China would, therefore, render the development fee somewhat more rational.

Finally, there is only a 5 percent profit in the development of land in the Guangzhou EDZ, which is undoubtedly a very low profit rate. It was adopted mainly because the development of the zone was guided not by considerations of profit as the objective of the development, but to provide land at favorable terms to attract foreign capital. This way of thinking can hardly be criticized for the initial period of the zone's construction, but when we analyze how the interest rate should be fixed, we must weigh all factors in the investment environment as a whole, and may under otherwise favorable conditions perhaps be somewhat less generous in our favorable land development fee terms, turn our land resource into greater wealth, accumulate more capital for the EDZ and accelerate the success for the EDZ.

By the above analyses, we can obtain the following formula for the computation of the land development fee of the Guangzhou EDZ:

Development fee = land expropriation compensation + investment costs + amount of interests + profit + any other expenses. We can also see that the development fee of 225 yuan per sq m, currently prescribed for the Guangzhou EDZ, is by far below normal urban land values, and does not reflect the true rental value of the Guangzhou EDZ, or the land supply and demand condition in the market. The calculation of a true land development fee is therefore still awaiting further study.

9808

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## ECONOMIC DEVELOPMENT ZONES

### BRIEFS

LIAONING'S DALIAN DEVELOPMENT ZONE--The Dalian economic and technical development zone of Liaoning Province made marked progress in enforcing the policy opening to the outside. In 1984 the development zone introduced 253 technical items whose volume of business was 190 percent over the total figure scored in the past 5 years. By utilizing outside funds in 1985, the zone introduced 450 technical items, a 78 percent increase over the 1984 figure. Of these technical items introduced in 1984 and 1985, 180 projects were completely built, which enabled 130 enterprises to renovate their technology in varying degrees, and which added more than 400 new products. A new increase of 650 million yuan in output value was scored in addition to a new increase of 150 million yuan of profits and taxes handed over to the state. [Excerpts] [Shenyang LIAONING RIBAO in Chinese 20 Feb 86 p 1 SK] /9599

CSO: 4006/826

ECONOMIC PLANNING

URGENT NEED FOR REFORM OF STATISTICAL WORK IN ECONOMIC WORK

Beijing TONGJI YANJIU [STATISTICAL RESEARCH] in Chinese No 4, 7 Dec 85  
pp 13-16

[Article by Cheng Quanfa [4453 0356 4099] and Ouyang Kui [2962 7122 7608] of Shashi Municipal Statistical Bureau, Hubei: "Reform in Statistical Work To Be Accelerated in Economic Structural Reform"]

[Text] I. In the course of the economic structural reform, Shashi Municipal Statistical Bureau has produced a great deal of statistical data, analyses and reports, and played a fairly good role in the way of services and supervision. In reflecting the new developments and new problems during the structural reform, however, it has encountered many difficulties because of the present highly centralized statistics system which is far from adequate for these requirements.

China's current statistical index system is originally incomplete and has difficulties in clearly reflecting many problems, such as the reorganization of integration, economic responsibility, technology imports, and the substitution of tax payment for profit delivery, that have emerged during the economic structural reform. The intensification of this reform has greatly disrupted the original division of work among different trades and obliterated the demarcation lines between different departments, regions and ownership systems. Now small projects can be started without the procedures for approval; enterprises can negotiate with foreign traders independently; and export output value need not be reported to, and can even be kept secret from the foreign trade bureau. Thus if the figures on many items, such as the retail sales volume, the fixed asset investment, and the total procurement value for foreign trade, are reported to the higher levels along the same channels as before, the statistics are most likely to be incomplete. After the decentralization of power and the invigoration of enterprises, some enterprises are unwilling to report some statistical figures truthfully, lest their own, or their workers' interests may be affected. An industrial enterprise actually incurred a loss of 100,000 yuan, but fraudulently reported a profit of 320,000 yuan by leaving 420,000 yuan of operating expenses and workshop expenses out of the production cost. And this is not the only enterprise to use such tactics. Since the open-door policy has strengthened the lateral relations, the demands for statistical data from various quarters are becoming increasingly numerous and urgent, and we are unable to satisfy

their wants not only for the classifications of indices, but also for speed. The feedback is slower, because it generally takes one-and-half months to come from the provincial statistical bureau and 2 months from the State Statistical Bureau. Thus many important statistical data have failed to produce the desired result. This situation is inconsistent with the progress of the information age.

II. To meet the requirements of the economic structural reform, the reform of statistical work must proceed from its own task of not only serving, but also supervising the reform of the urban economic structure. It is thus necessary for statistical work itself to be reformed according to the requirements of the economic structural reform. Instead of making minor adjustments in the tables of indices, we should look far ahead, reform and improve the index system, and gradually set up a statistics accounting system with typical Chinese characteristics.

### 1. Leave the Door Wide Open, Face the Society

China has for a long time closed itself to international intercourse and become poor and backward as a result. After summing up its historical experiences, the Party Central Committee resolutely adopted the open-door policy. This was a strategic policy decision to accelerate its four modernizations.

To meet the requirements of the open-door policy and to serve the economic structural reform more efficiently, statistical work must change from a closed-door to an open-door type and must leave the door wide open and face the society. Provided the state security is not jeopardized, it must supply the huge amount of statistical information, now slumbering in the data storage, to all the departments and units that may need it. In 1983, we began to compile and publish the STATISTICS YEARBOOK of social economy. This year, we again compiled and published the STATISTICAL INFORMATION, and expanded the sphere of distribution of the original STATISTICAL DATA. Through the newspapers and the radio, we have also made occasional announcements of the statistical data concerning the social and economic developments as well as the people's living conditions. To increase our source of information, we have established contacts with 70 cities in the country for the regular exchange of information, joined the statistical information associations in 25 small and medium-size cities, formed an information network of 30 key enterprises, and supplied monthly statistical analyses and reports. Thus we have not only made better use of statistics in its roles of service and supervision, but also increased the effects of statistical information on the society, raised its social position, and further improved its quality under social supervision.

### 2. Substitute the New for the Old, Reform the Index System

Along with the intensification of the economic structural reform and the orientation of statistical service to the society, the demands for statistical information have continued to increase. The current index tables are too complicated and should be simplified. Some of them are out-dated and due for elimination, while many indices reflecting new economic phenomena should be

supplemented. On the whole, the entire index system should be updated and reformed from the macroeconomic point of view.

First, the reform and improvement of the social, economic, and the scientific and technological index systems. The present economic index system is still inadequate and should be supplemented in the following four aspects. First, in the economic result index system. At present, the index system is fairly complete only for industrial economic results, but not for the other material production branches, some of which do not even have such a system. Therefore, a complete index system must be set up for the entire national economy. Second, in the price index system. At present, only the price indices concerning consumption in the workers' daily life and the retail sales are included in the periodical statistical system, while there is only a trial plan for the price index of industrial products. For construction, transportation, posts and telecommunications, and agricultural sideline products, the price index is in some cases basically nonexistent. The price index system must be improved before it can help in analyzing the trend of change in the total social price. Third, in the index system for various special statistics and for the overall balance. All indices of special statistics are being handled separately and do not agree with the index of overall balance. This disagreement not only creates contradictions in the statistics figures, but also adds to the difficulties in overall balancing. Therefore, this system should be reformed. Fourth, in the retail sales index system. For urban reform, we should stimulate the circulation which should be reflected in a retail sales index system. In the industrial branches, there is only a gross sales income, and it is difficult to tell the sales volume in the city, in the province, in the country, or abroad separately. If we look at the total sales in the commercial sector, it would also be difficult to find out the ratio between the local products and the products of other places that have been sold. Only a more detailed sales index system can reflect the competitive power of a city's product on the various markets.

Compared with the index system of economic statistics, that of social statistics is even more inadequate. We may even say that the index system for social statistics is still nonexistent. The major social phenomena must be classified by structures and levels to form a social statistics index system be included in the state's statistical system so that it can help in the development of various social undertakings.

The index system for statistics on scientific and technological progress, theoretically speaking, can be included in that of social statistics. However, we to keep it separate as a parallel to social and economic index systems. As for the index system for scientific and technological progress, we may tentatively divide it into three levels. At the first level is the basic index of scientific and technological progress, including the indices of the personnel, the expenses, the equipment and the organizations of science and technology. The second level includes the indices of scientific research projects, the scientific and technological achievements, the imported advanced technologies, and the proportion of enterprises of the technology-intensive type. The third level includes the indices of the actual economic benefits produced by the application of science and technology in production, or, in other words, the transformation of science and technology into productive

forces and then into wealth. At this level, the labor productivity in terms of real products and the output value produced by advanced technologies may serve as indicators.

Second, the index system of statistics on the development of material and spiritual civilizations, the two major tasks which must be accomplished in the process of China's modernization. If we want to follow this policy and promptly reflect the progress in these two tasks, we must have these two index systems. The system reflecting the development of material civilization should include the national income per capita, the income per capita for living expenses, the housing conditions, the number of durable commodities per 100 households, and the quantity of high-grade woolen fabrics and food consumed per person each year. The system reflecting the development of spiritual civilization includes the cultural standards of the population, the social security, the environment protection, the divorce rate, the age of first marriage, tree-planting in the cities, the standards of medical treatment, the amount of travel time and off-duty time per person each year, and the spare-time utilization rate. These indices generally reflect the relationship between the social conduct and the new type of society. The index system reflecting the spiritual development cannot become comprehensive overnight, and should be constantly improved in practice.

Third, the index system of statistics on the strategic objective. According to the decision of the Party Central Committee, the strategic objective is to quadruple the GVIAO and to increase the per capita GNP to \$800-1,000. The GVIAO is commonly used in China and quite familiar to the leadership at all levels, and the GNP is convenient for comparison with Western countries. In the study of important issues, however, both of these indices are of only limited value. The scope of GVIAO is not so broad as that of total social output which reflects the total result of social production more comprehensively. The GNP and the national income belong to two different accounting categories. The central authorities calls for the development of the tertiary industry and the accounting of the GNP. This is an important policy decision in the interest of China's modernization program and must be resolutely implemented. However, instead of mechanically copying from the scope of tertiary industry in foreign countries, we must consider the actual conditions in China. For example, the monks and priests of foreign countries are under the category of tertiary industry. The conditions are different in China. Moreover, the government and the armed forces also belong to tertiary industry. This is contrary to the theory of the sequence of the social development of the three industries. We believe that the government, military and religious occupations should be neither included in the tertiary industry nor be accounted for in the GNP. There are also many contradictions between the theoretical and the practical calculation of national income. For example, if posts and telecommunications are arbitrarily divided into material production and nonmaterial production, it will be very difficult to determine the result of an integral unit. In some large vessels, the passenger cabins are on the upper level and the cargo compartments are on the lower level. The cost of production is always shown in a lump sum and cannot be easily divided.

There are contradictions among these indices in either theory or practice. Before resolving these contradictions, we are in favor of counting the total

social output value, the GVIAO, the national income and the GNP all together, so that the statistics will be all-inclusive and we can have more initiative in our work. When we have acquired more knowledge after a period of practice, we can select the strong points and discard the weak points in both the Chinese and the foreign system. We need not copy mechanically from the Western system, or be restricted by the oriental conventions, and will then be able to set up a typical Chinese statistical system that is suitable for China's national conditions.

### 3. Methods of Reform in Statistics

For more than 30 years, we have used the methods of comprehensive statistical reports and investigations and are now helpless in the face of the new developments and new problems which are continuing to crop up during the economic reform. The economic reform in rural areas have fundamentally shaken the faith in "most report forms." We must draw some experience from the rural reform, and change the present method of statistical investigation during the reform of the urban economic structure. We must adopt flexible and diversified methods in investigating various social and economic phenomena. For the enterprises directly under the departments in charge or under the companies, or the enterprises with a fairly good foundation, we continued the system of submitting reports level by level. For the enterprises run by townships, schools or villages, and for the small stores, the country fairs, the construction teams and transportation teams of peasants, however, we adopted the methods of sample surveys and investigations of typical cases, and then collected data from the tax bureaus, the industry and commerce administrations, and the banks to supplement and verify our findings. Making full use of various flexible and noncomprehensive surveys, we have gained many fairly accurate materials for some major statistical indices, such as the data concerning the income from cargo transportation, the amount of work in construction and installation, the volume of retail sales, the number of houses built by private individuals, and the per-capita floorspace, which cannot be correctly reflected in report forms. At the same time, we felt encouraged to delve into the realities and to investigate and study the objective conditions, thus improving the quality of the statistical figures and raising the standards of the statistical personnel and their work.

In reforming the statistical methods, besides the method of sampling, we should use many other mathematical methods, such as regression, correlation, and time series which are particularly useful for statistical deduction and forecast.

At the same time, we should strengthen our urban economy survey teams and the agricultural produce survey teams to form two strong arms of a comprehensive statistical department. In addition to surveying the prices and the household economy, they should investigate into the new developments and new problems appearing during the economic structural reform.

In reforming the statistical methods, some supplementary reforms should also be carried out for those methods of calculation which are obviously incompatible with the economic structural reform. For example, in calculating the net output value, we arrived at the amounts of taxes and profits due which

presented a fictitious appearance of the national income. From the end of 1981 to 1984, Shashi's textiles were heavily over-stocked as a result of poor sales. The taxes and profits based on the output value continued to increase, whereas the taxes actually paid and the profits actually delivered continued to decrease every year. Each year, the loss from cut prices in the disposal of over-stocked goods amounted to tens of millions of yuan, more than 10 percent of the national income. Despite their stockpiles, the enterprises still desperately continued to increase their output value, and had to obtain bank loans to maintain their production. Thus the more they produced, the heavier the stockpiles became, leading to the increase in loans and the deterioration of economic results in a vicious cycle. Although this was primarily the unfortunate outcome of a blind quest for output value, the irrational methods of statistical calculation also had something to do with it. The reform in the method of calculating the net output value must be accompanied by a reform in the methods of calculating the output and the gross output value. The original method of calculating the output and the gross output value must be changed so that the calculations must be based on the products that have passed the inspection after the final work process, have been packaged and stored, and have been sold after leaving the factory. This reform has many advantages, especially in rectifying the long-standing error of one-sidedly striving for output value, and thereby achieving a basic identity of the gross output value with the economic results. In the reform of construction enterprises, the system of fixing the amount of wages for every 100 yuan's worth of finished work is consistent with the principle of paying according to work done, and has greatly increased the workers' efficiency. However, some workers trying to get better wages have used good materials lavishly and ignored the need for raw material conservation. In calculating the output value, on which the amount of wages is based, the substitution of net output value for gross output value will eliminate this defect and more effectively meet the requirements of the reform.

III. The objective of the urban economic structural reform is to invigorate the economy. Statistical work too should be invigorated before it may suit the development of the situation.

In theory, statistical work is divided into three stages, namely the stages of statistical investigation, statistical processing and statistical analysis. Without statistical analysis, the work of statistics can be only be considered half done. Greater emphasis on the importance of statistical analysis is, therefore, an important way to improve the service of statistics and to invigorate the statistical work.

Now, the leadership at various levels want to have the analyses of the new developments and new problems appearing in the course of the economic structural reform. The required data are not contained in the statistics report forms. We must conduct in-depth investigations, process the relevant data, and write our statistical analysis reports. In the 5 years from 1980 to 1985, we wrote 405 such reports and the proportion of the reports which produced the desired results was increased from 50 percent of the past to about 80 percent. About 10 percent of these reports were published in various publications, including those for internal circulation. Statistical analysis has brought profound changes in statistical work. From the narrow confines of



report forms, the statistics personnel have now entered a big world, and the former insipid figures have become alive and interesting. Formerly, the municipal authorities regarded our department as merely an agency to submit reports to the state. Except for the figures submitted, the work of statistics did not receive much attention. The development of our analytical research created a "storm" in the city and captured the leadership's attention. Now, we are invited to attend some of the important economic conferences in the city. The work of statistics has now received social recognition, and the people requesting our materials are more and more numerous. The rise of its social position has enabled statistical work to play its role more effectively.

IV. Statistics is a labor-intensive undertaking, since the verification of reports, the recording, itemizing, processing of data, and their printing and proof-reading involve many work sequences. The voluminous figures also add to the workload, and the quality of these figures can hardly be guaranteed even though the statistical personnel work overtime. This type of manual work, like the small-scale production of handicraft industry, is far from adequate for the needs of economic structural reform in the cities. The "Statistics Law" and the State Council's "Decision Concerning the Strengthening of Statistical Work" have explicitly called for the modernization of the techniques for calculation in statistics and for the transfer of data.

Our microcomputers have been installed. We have undertaken the tasks of calculation and collection of data concerning industry, population, household economy, commodity price and fixed asset investment, and demonstrated our superiority in the supply of timely statistical information. We are even more efficient in preparing voluminous tables. Formerly, with the use of calculators, each person had to spend one week in calculating the average life expectancy of the total population, the males and the females. Now, with microcomputers, only 2 hours are required and the result is fool-proof. Thus many statistical workers can be free from the humdrum of figure work and can devote more time to statistical surveys and analytical research. If we are equipped with terminals and a national computer network is formed together with an automatic system of data processing and transmission and the necessary data storage facilities, it will then be a big liberation for the work and the personnel of statistics and their contributions to China's four-modernization drive cannot be easily estimated.

9411

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AGGREGATE ECONOMIC DATA

ANHUI'S TOWNSHIP, TOWN ENTERPRISES EXPANDED IN 1985

Hefei ANHUI RIBAO in Chinese 28 Jan 86 p 1

[Article: "Township and Town Enterprises in Anhui Undergo Major Development in 1985; Their Value of Output Surpassed 100 Million Yuan in 45 Counties and 200 Million Yuan in 5 Counties and the Suburbs of One City"]

[Text] In 1985, the output value of township and town enterprises in Anhui Province surpassed the 200 million yuan barrier for the first time in Dangtu, Huaiyuan, Tianchang, Huaining and Tongcheng Counties and in the suburbs of Hefei City, and they achieved a relatively high rate of development and fairly good economic results. Output value was greatest in the suburbs of Hefei City, reaching 269 million yuan, up by 67.3 percent over 1984. The rate of growth was fastest in Dangtu County, where output value rose from 118.46 million yuan in 1984 to 246.51 million yuan in 1985, a net increase of 128.05 million yuan, more than double the previous year.

According to early reports from all prefectures, the number of counties in which the value of output in enterprises exceeded 100 million yuan leapt from one in 1983 and 15 in 1984 to 45 in 1985.

Survey analysis indicates that the "rich and influential" among township and town enterprises were able to maintain a rather high rate of development primarily because leadership at the county level focused on development of the enterprises as a major strategic measure for invigoration of the rural economy, resolutely took reality as the starting point, made full use of local advantages, and paid attention to horizontal relationships and technical transformation within the enterprises to achieve a significant increase in their competitiveness and adaptability.

12539/12795  
CSO: 4006/767

## ECONOMIC MANAGEMENT

### STATE ECONOMIC COMMISSION URGES BETTER HORIZONTAL LINKAGE

Fuzhou FUJIAN RIBAO in Chinese 20 Jan 86 p 4

[Article by RENMIN RIBAO correspondent Wang Tianduo [3769 1131 6995] and XINHUA correspondent Xu Yaozhong [1776 5069 0022]: "Grasp Promotion of Horizontal Economic Links as This Year's Important Task--An Official of the State Economic Commission Puts Forward Six Demands"]

[Text] Beijing, 19 Jan (XINHUA)--To implement the spirit of Premier Zhao Ziyang's pronouncement emphasizing linkages and urging reforms, to seriously enhance horizontal economic linkages, especially between enterprises, across the boundaries of localities and sectors, and to accept this as an important task of this year, an official of the State Economic Commission today put forward six demands:

1. Enhance knowledge, review experience: Conscientiously study the spirit of Comrade Zhao Ziyang's speeches at the National Planning Commission meeting and at the economic work meeting, and study the related directives of the central authorities, persist in reform, systematically sum up all accumulated experiences and unify thought and knowledge.
2. Carry out horizontal linkages as an important way to enhance economic results: By means of effecting horizontal economic linkages, promote adjustment of the industrial structure, stimulate technological progress, bring about an intensive expansion of reproduction and promote the rational distribution of local economies.
3. Bring the role of key cities more effectively into play in horizontal economic linkages: The key cities must use their superiority in the fields of industry, science and technology, availability of talent, in circulation, finance and information to full advantage, for the promotion of multifaceted horizontal linkages.
4. All industries and trades in whatever localities must draw up plans for the development of support and promotion of horizontal linkages: By means of horizontal linkages, full use must be made of all advantages in the various localities, industries, trades and enterprises. Major linkage projects must be made part of the plan, and rational dispositions and harmonious coordination must be achieved.

5. Continue effective efforts to exactly fit support to the needs of the situation: Make it an essential part of launching horizontal linkages that support be exactly geared to the needs of "outmoded, sparsely populated, border area, and poor" districts. This support, which must be geared to the exact needs of the localities, must maintain the principle of mutual assistance and mutual benefit, must be conducted according to economic rules, and must also stress proper workstyle and consideration of the overall situation.

6. Attention must be paid to the continuous analysis and study of the new situations and new problems arising from horizontal linkages. Horizontal linkages are a new thing. The new problems that are being met with in this work must be subjected to further theoretical exploration; we must launch policy studies, draw up appropriate measures, and do a good job of supporting this work with our policies and of safeguarding it with appropriate legislation.

9808

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## FINANCE AND BANKING

### ISSUANCE OF INTERNATIONAL BONDS DISCUSSED

Taiyuan SHANXI CAIJING XUEYUAN XUEBAO [JOURNAL OF SHANXI FINANCE AND ECONOMICS COLLEGE] in Chinese No 6, Dec 85 pp 25-27

[Article by Wang Wei [3769 0251]: "A Good Way to Attract Foreign Capital -- Issue International Bonds"]

[Text] In their "Communist Manifesto," Marx and Engels pointed out that the expansion of capitalism had opened up world markets. The former cut off and self-contained state of self-supply for self-sufficiency of places and peoples had been replaced by mutual intercourse among all peoples and all places. Protection and consumption in all countries had become global. Now, the full speed development of science and technology brought about swift development of productivity. Under these circumstances, despite the intricacy of international circumstances and the numerous contradictions, in an overall sense the objective requirements of productivity have made economic and technical cooperation and economic and technical links among nations become extremely necessary. Consequently, modernization cannot rely on self-supply for self-sufficiency and being self-contained and closed off from the rest of the world.

China is a socialist country, of course, that differs in nature from capitalist countries. Furthermore, China's is a planned commodity economy. We realize that a commodity economy is the product of the development of productivity to a certain historical stage, and that development of a commodity economy is a stage that cannot be skipped in the development of a socialist economy. Therefore, we say that development of a commodity economy is an essential condition for the modernization of China's economy. Since both socialism and capitalism have commodity economies, it is imperative that they have a certain relationship with each other. Therefore, whether or not it is possible to make equitable and effective use of both domestic and foreign resources, to open both markets, and to learn two sets of skills has a direct bearing on progress in the four modernizations.

There are many ways of using foreign capital, several of which are currently being widely used in China. Use of these methods plays a definitely active role in China where capital is currently in short supply. However, we have not yet achieved a flexible one, using many channels and methods to attract foreign capital. For example, the effective method of issuing bonds has not

been put to full use in China, and bonds are not in general use among enterprises and within enterprises as is the case in capitalist countries. We know that as capitalist economies developed, international enterprises gradually formed and developed into conglomerates that transcended industries, sectors and national boundaries. The appearance of conglomerates spread subsidiary companies all over the world, and a major source of capital for these derivative companies in different countries of the world was the issuance of company bonds, i.e. it was amassed through the issuance of international bonds. Obviously, the use of international bonds to attract foreign capital is a common practice in capitalist societies, but this effective method has yet to attract sufficiently serious attention in China.

Of course, China is a socialist country that cannot pile debts upon debts as capitalist countries do; however, proper and planned issuance of some international bonds is still entirely possible. This is because of the following:

1. Under guidance of the Party's program for opening to the outside world and enlivening the domestic economy, China's economy is in the process of developing from a closed independent economy to an open multi-national economy. The various enterprises of different sizes that we currently operate were founded in capitalist countries. These enterprises are in a socialist economy that is rooted in capitalist economies. Since they are characterized by a geographical position and their surrounding environment that is not paralleled among domestic enterprises; therefore, the issuance of international bonds among these enterprises to amass foreign capital is entirely possible.

2. As China has opened its doors, the capitalist economy has also gradually expanded toward China. This is currently most conspicuously manifested in the four large economic zones of Shenzhen, Xiamen, Shantou and Zhuhai where individual capitalists and groups are investing energetically and have formed joint venture enterprises of various kinds with China. Were these joint venture enterprises to issue international bonds, the funds they would amass would doubtlessly be of two kinds as follows: One would be capital provided by residents, companies, enterprises and banks in China; the other would be capital provided by individual capitalist groups and joint venture enterprises. Since the capital that comes from joint venture enterprises would be composed of partly Chinese and partly foreign investment, part of the capital attracted would be Chinese capital and the other part would be foreign capital. This portion of foreign capital could be collected through the issuance of international bonds.

3. Accompanying inland China's opening to the outside world will be further implementation of a program for enlivening the domestic economy, and joint Chinese and foreign venture enterprises will become increasingly numerous. Consequently, at that time it would also not be impossible for inland China to issue international bonds to accumulate capital.

4. The goal of capitalist production is to extract every possible bit of surplus value; therefore, no matter the form capitalist investment takes, and no matter the enterprises or the countries in which investment is made, the

goal will be to make the maximum profit. Capitalists' investments in negotiable securities and capitalist investment in enterprises equally produce profits. The objectiveness of economic laws determine that capitalists will not only invest in assets, but will also invest in securities. Clearly the issuance of international bonds to accumulate foreign capital is entirely achievable in China.

Issuance of international bonds is one form for the accumulation of foreign capital. Even though this method is no different in nature than direct foreign bank loans, it has its own unique characteristics that are not only beneficial for the issuer, but also that hold advantages for the buyers.

1. Advantages for the bond issuer:

(1) It is much more widely based in society than loans. Since the sources of funds is so broad, it is possible to accumulate large amounts of capital continuously.

We are aware that loans are funds borrowed from a bank or a financial group formed by several banks, while the issuance of internal bonds is to borrow from all investors. This includes not only various banks and financial institutions, but also includes individuals, insurance companies, and credit investment companies. In addition, through the issuance of international bonds, ties with investors in various countries may be strengthened. Once international bonds have been accepted by international investors, they may be issued continuously. In this way, not only can the continuous accumulation of large amounts of funds be assured, but it also becomes possible to reduce or spread losses resulting from changes in interest rates or foreign exchange rates.

(2) The burden that units using funds bear in repaying the capital plus interest may also be lightened, and units using the funds are spurred to strengthen cost accounting.

International bonds are a kind of bond that is characterized by a long loan period inasmuch as their interest rate is set once and for all at the time of issuance, the interest rate remaining consistent. In view of the continuation of inflation worldwide, use of bonds to accumulate capital makes it possible to lighten the burden of repaying capital plus interest, on the one hand, and helps units using the funds to strengthen cost accounting on the other and to improve their level of administration and management.

(3) Successful issuance of international bonds can improve the international credit of the issuer.

Socio-economic development goes through various stages from the natural economy stage to the commodity economy stage to the currency economy stage to the credit economy stage. As the extent of the socialization of production increases, the credit economy gradually expands from inside the country to outside the country, thereby forming a credit economy on a world scale. Though issuance of international bonds and bank loans are both ways of accumulating foreign capital; nevertheless, since bonds have a broader base in society,

their international effect differs very greatly from that of loans. Loans have a bearing on only one or several banks; consequently, their effect is limited only to banks that have a professional relationship to them. Moreover, international bonds not only produce links to banks but also to the broad masses of investors as well. Consequently the public issuance of international bonds can give wide publicity to, can expand, and can improve the international credit and influence of the issuer. This is because the credit rating of the issuer is an important condition in being able to sell the international bonds that the issuer has issued. If the political situation in a given country is shaky and the economic situation bad, and if the issuing enterprise is frequently unable to honor contracts as well, the enterprise's bonds will not be readily accepted by investors and the enterprises will thus be unable to get the funds it needs promptly. Conversely, if the political situation in a country is stable and it enjoys robust economic strength, and if, in addition, the issuing enterprise is very able to repay its debts and has a high credit rating, conditions for its issuance of bonds will be good and the enterprise will be able to sell all the bonds it issues on time and receive needed funds at once.

(4) The bond issuer can reduce enterprises' interest burdens to the advantage of the enterprises.

Every enterprise has a certain amount of flexibility in the management of its funds. When an enterprise is short of capital, it can issue international bonds to accumulate foreign capital to insure that the enterprise's production continues smoothly. However, when a company has no use for accumulated funds, it can repay the loans to reduce its interest burden. In addition, when financial markets and banks are choked with idle funds, bonds may be issued that pay low interest, and funds borrowed at low interest rates may be invested in things that yield a relatively high profit insuring greater profits for the enterprise.

## 2. Advantages for the Bond Buyers

Purchase of bonds is a form of investment by which most banks and investors in capitalist countries are anxious to invest in things that are liquid, safe and profitable. However, since liquidity, safety and profitability are frequently in conflict in real life, in a certain sense the purchase of bonds can play a role in regulating the conflict, and this is the reason most investors are happy to buy bonds. In view of this psychology on the part of most investors in capitalist countries, it is recommended that enterprises in coastal China issue international bonds. This psychology will not only make it possible for them to accumulate capital from over a fairly large area, but it will also help them obtain fairly favorable terms for issuance.

3. Though the issuance of stock shares is also a major way in which to accumulate foreign capital, this is less desirable than the issuance of international bonds. As soon as an investor buys an issuer's stock, he becomes a shareholder in that enterprise, and then he has voting rights, management rights and profit sharing rights in the company. This means that he is entitled to vote for the chairman of the board of directors and other leaders of the enterprise, and this is unfavorable to management of the



enterprise in accordance with Party programs and policies. When international bonds are issued, however, usually the buyer is entitled only to a share in the profits. This both insures absolute leadership of the enterprise on China's part. This shows that issuance of international bonds makes it possible not only to maintain the rights of the original stock holders without dilution, but also retains intact management rights over the enterprise. This is because if the issuing company issues preferred stock, the new stockholders have special rights. If it issues common stock, the control rights of the original common-stock holders will be diminished and the rights of the original common-stock holders impaired. Conversely, if international bonds are issued, the shareholders become creditors of the enterprise. So long as the enterprise repays capital plus interest on time, the creditors have no authority to interfere in any of the business activities of the enterprise.

Obviously, not only is it imperative that coastal parts and the several large special economic zones in China issue international bonds to accumulate foreign capital, it is also possible. This would not only make up for the country's shortage of capital, but it would also improve China's international credit, and this would be extremely favorable for China's four modernizations.

9432

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FINANCE AND BANKING

MACROECONOMIC REGULATION, CONTROL BY BANKS DISCUSSED

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 2 Dec 85 p 2

[Article by Xu Meizheng [6079 5019 1767]: "Strengthen the Bank's Macroeconomic Regulation and Control"]

[Text] Bank's Role in System of Macroeconomic Control

While invigorating the enterprises, we must also perfect the system of indirect control with macroeconomic means. This measure will call for a series of structural reforms in various fields, and one of the most important tasks is the reform of the banking system.

In the former macroeconomic control system, mandatory plans and administrative measures were relied on as the mechanism of control, while the banks, which were in charge of funds and the issuance of notes, could only act as cashiers. In the new economic system, the bank will play a far more active role as an important component of the macroeconomic control system.

Under a planned commodity economy, planned macroeconomic regulation can be realized only through the market mechanism in regulating the flow of notes and funds, and the bank serves as the hub and the main gate for these flows. Bank regulation will ensure normal economic activities, promote the national economic growth, control the issuance of notes, and stabilize the currency and the economy. As people often said, the important task of macroeconomic regulation is to maintain a balance of total social supply and total social demand. The total social demand comes from the expenditures of the government, the enterprises and the individuals, and without the support of bank loans, these expenditures can never exceed their gross income. Therefore, the control of credit and currency is an important factor in the control of total social demand, and the increase in this demand is inseparable from credit support. That is why the control of credit and money is the key to macroeconomic control, and the bank becomes the most important agency of macroeconomic regulation and control.

Along with the development of the economic structural reform, the bank's role in the collection and distribution of funds is being increasingly strengthened. At present, the bank not only takes charge of the loans for circulating funds, but is also involved in fixed asset investment through the

issuance of short- and medium-term equipment loans. With the continued development of the economic structural reform in future, the bank's role in the collection and distribution of funds will be further strengthened, and its position in the control system will be even higher.

#### Reform of Bank's Control Mechanism

In the old economic structure, which conformed to the planning structure, a special feature of the banking system was the presence of all-powerful banks which exercised exclusive control over the deposit and loan indices. Since this system cannot meet the needs for the development of a planned commodity economy, a series of reforms were introduced in the past several years. In banking organization, we began to eliminate the all-powerful banks and introduced a new system with a central bank as the core and the specialized banks as the foundation and including other financial institutions. The reforms have invigorated the finance and enabled the macroeconomic mechanism to begin its shift from direct to indirect control.

The establishment of the central bank was an important step in setting up a system of indirect control, but this system could not be set up overnight. When the central bank was first formed, its funds were not separated from those of the specialized banks, and there was also the system of joint settlement of all banks' accounts. The control of funds was still like "eating from the same pot." Moreover, since the central bank's system of reserve against deposits had not been properly set up, it was still unable to use the reserve funds as a means of regulation. More important still, the role of derivative deposit had not been seriously considered. Therefore, even after the establishment of the central bank, the system of indirect control did not actually exist. At the same time, the practice of "linking loans with deposits and controlling the difference between them" went beyond the direct control of the index system, causing a gap in the system of macroeconomic control. The uncontrollable scale of credit and the over-issuance of currency were closely related to this gap.

To strengthen the macroeconomic control and to improve the management of credit and funds, the management system of "unified planning, divided funds, actual credit, actual deposits, and mutual accommodation" was adopted whereby the funds were divided between the central bank and the specialized banks and the system of joint settlement of accounts was modified. At the same time, the system of reserve against deposits was improved and different interest rates were set for loans and deposits. These reforms enabled the central bank to control the scale of credit granted by the specialized banks through the control of their reserve against deposits and their relending. Then, with its own funds, the central bank began to set up its own mechanism of indirect control over the credit. This year, the central bank has played an important role in controlling the scale of credit through the control of relending.

To control the scale of credit, the central bank also controlled the amounts of loans along with the control of relending by the specialized banks this year. The index control of credit was thus restored.

Because the earlier scale of credit was excessive and the means of indirect control was inadequate, the restoration of the index control was a necessity. However, when the sources and channels of funds and the social fund structure are undergoing changes during the economic structural reform, and when the authority to use funds is decentralized, it is impossible to rely on index control and administrative measures alone.

#### Consolidation and Improvement of Macroeconomic Control System

We must reduce direct control while gradually increasing our indirect control. In the first 2 years of the Seventh 5-Year Plan period, special attention should be paid to the following aspects.

We must further strengthen the position and independence of the central bank and eliminate the shopworn idea that banks are only the suppliers of money. The central bank must be empowered to regulate and control the currency with no interference from any department. Within the banking system, the leadership of the central bank and its branches over the specialized banks of the same level in business matters must be further clarified. If necessary, the required executive power may be given to the central bank so as to strengthen its unified leadership and centralized control over banking and the other financial institutions. The central bank itself should no longer play a passive role in supplying money; instead, it should keep its eyes on the overall situation, closely watch and analyze the economic conditions and take the initiative in regulating and controlling the currency so as to ensure normal economic growth and monetary stability.

The central bank's control mechanism must be strengthened. First, active research must be conducted on such technical issues as monetary multiplication, the indices of currency supply and so forth. Second, the system of reserve against deposits must be perfected. The reserve must be set up in different proportions according to the character and duration of loans and the deposits of different financial institutions, and the proportions should be readjusted to suit a tight or easy money market. After readjusting the banks' benefits, the abolition of interest on the reserve funds may be considered. Third, the system of relending must be improved. The interest rates of relending by the central bank should be raised as an inducement to the specialized banks to organize their deposits and to extend temporary loans among themselves. The central bank may relend or rediscount the specialized banks' loan certificates as it sees fit in regulating the monetary structure. A floating interest rate may be used for relending outside the plan. The central bank will not be able to abolish its index control over the specialized bank loans. However, while its indirect control continues to improve, its direct control can be gradually weakened through, for example, a more flexible system of index control, the permission for specialized banks to increase their loans to a certain extent, and then a gradual change to the central bank's use of its own funds and to an indirect control of the scale of credit supplemented by the control over the size of loans.

The improvement of an indirect control system should go hand in hand with the invigoration of finance and a gradual opening of the money market. To invigorate the finance, we must readjust and reform the system of interest

rates, run the specialized banks in the form of enterprises, streamline the relationship between direct and indirect financing, and further reform the system of financial organization. All these reforms should proceed in a planned, systematic and well coordinated way.

A salient feature of the present situation is the development of fund-raising activities. These direct financial and monetary activities must be carefully guided and controlled. According to China's national conditions, indirect financing should be in the leading position, but direct financing too can be appropriately organized and developed. The spheres of direct financial and monetary activities, the sources of funds, the levels of dividends and bonuses and so forth should be regulated and under the unified control of the People's Bank, and the financial and monetary activities should all be accounted for in the gross social fund and in the scale of fixed asset investment for the purpose of overall balancing. The practice of apportionment of expenses with administrative means and fund raising for increasing the spending of the consumption fund should be stopped. At the same time, we should actively develop indirect financing, raise the interest rates for enterprise deposits to encourage their fund accumulation, increase the outlets for savings deposits, and develop postal savings in an effort to tap social resources.

Another problem we now have is that the vertical index control affects the horizontal flows and flexible regulation of funds. To solve this problem, we should make better use of the regulation funds of the central banks and its branches, open the temporary-loan market, and permit a floating interest rate for these loans. The central bank may also regulate the supply and demand for funds through this market.

The operation of banks in the form of enterprises is the basis of a sensitive reaction of microeconomics to the indirect regulation and control by macroeconomics. We can now proceed to set up a business responsibility system along with other regulations to be strictly enforced.

Another important way to improve the system of macroeconomic control is to strengthen financial legislation and the control of financial administration. We must quickly introduce legislation for the laws of the central bank and the specialized banks, the trust law, the bill law and other related laws; and to set up and strengthen the work of financial auditing.

There is also the problem of cadres in the all-round development of the economic structural reform, not only because the number of cadres is not adequate for the development of financial institutions, but also because, more important still, this reform has brought about profound changes in the banking business. The training of cadres, therefore, should be treated as a very urgent task.

9411

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8 April 1986

## MINERAL RESOURCES

## CHINA'S NON-FERROUS METAL OUTPUT INCREASING

Beijing RENMIN RIBAO in Chinese 4 Feb 86 p 2

[Article by Liu Xieyang [0491 3610 7133]: "Improvement Economic Results through Tapping of Internal Resources, Steady Development of Non-Ferrous Metal Industry"]

[Text] By tapping its internal resources, China's non-ferrous metal industry has maintained its steady and coordinated development in 2 consecutive years. In 1985, the output of 10 different non-ferrous metals including copper, aluminum, lead, zinc, nickel, tin, titanium and magnesium increased more than 7 percent over the previous year, and 87 percent of the increase was attributed to the tapping of resources among the enterprises.

Non-ferrous metal industry is an important raw material industry. If the non-ferrous metal industry fails to advance, the production of other fine-quality materials will certainly be affected. Because of the open-door policy and the development of the four-modernizations drive, the markets for non-ferrous metals at home and abroad have continued to expand along with the increase in the demand for these metals.

In increasing the productive capacity for non-ferrous metals in the past, China was mostly concerned with new projects on which about 1 billion yuan was spent each year. Since 1984, however, the state has turned its attention to the tapping of potential and the renovation, transformation and expansion of the existing enterprises. During these 2 years, a total of 178 technical transformation projects were arranged for non-ferrous industry throughout the country, and 61 of them have been basically completed. After technical transformation, the productive capacity of Shenyang's aluminum system was increased 1.7-fold, resulting in a saving of two-thirds of the investment required for building a new plant of the same size in addition to a two-third reduction of the construction period. The Dongbei Light Alloy Processing Plant also carried out technical transformation on its plate and sheet system, resulting in an increase of nearly 40,000 tons of plates and sheets in its productive capacity, and a saving of half of the investment required for building a new plant of the same size.

In the course of technical transformation, the enterprises have commonly adopted the system of project responsibility for tapping their internal resources, thus ensuring the quality and progress of work. Last year, the Dongbei Light Alloy Processing Plant planned for more than 100 technical transformation projects mostly involving minor changes. Because of the technical contract system which clearly spells out the responsibility, all the projects were completed on time.

## MINERAL RESOURCES

### SHAANXI'S ABUNDANT MINERAL RESOURCES REPORTED

Yinchuan NINGXIA RIBAO in Chinese 26 Jan 86 p 2

[Article by Wu Shufang [0702 2885 2455]: "Shaanxi Has Abundant Mineral Resources"]

[Text] Shaanxi has abundant mineral resources. By the end of 1984, 59 different types of minerals with 152 large or medium deposits had been verified in 836 mineral sites.

In the coalfield covering the counties of Yulin, Hengshan, Shenmu and Fugu in northern Shaanxi, nearly 100 billion tons of deposits have been verified. The coal here is well known over the world for its low sulphur and ash content and its high caloric value with good potential for competition in the world. The verified deposits of gold also continued to increase. The industrial and prospective reserves verified now total more than 100 tons. The gold mine in Xiaoqinling has become one of China's four large gold mining bases, and its prospective reserve is continuing to increase. The verified deposits of mercury and titanium in Xunyang County, southern Shaanxi, rank second in the country, and have provided the foundation for large-scale mining. In the Qinling mountainous area from Fengxian to Taibai, the reserves of lead and zinc have been verified to be 1.6 million tons. When this area combines with the large Changba area of lead and zinc deposits in Hexi Corridor of Gansu to form a solid block, it will become an important lead and zinc industrial base of China. The nonmetallurgical minerals here are even more impressive. The verified deposits of barite, asbestos, cement limestone, dolomite, sulphur, stones for construction, glass materials, fine-quality quartzite, quartz casting sand, and so forth, are on the top rank in the country. In recent years, there were new discoveries of grammite, tremolite-schist, bentonite, sepiolite and fo shi [10154 4258], all with good prospects. In the Shang-Luo area, which is close to the borders of Henan and Hubei, there are quite extensive marble deposits suitable for making color tiles in the construction trade. These deposits have a strong appeal to some traders in Hong Kong and the foreign countries.

9411

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## INDUSTRY

### INFLUENCE OF IMPORTED TECHNOLOGIES ON MODERNIZATION

Beijing BAN YUE TAN [SEMIMONTHLY TALKS] in Chinese 25 Jan 86 pp 30-31

[Article by Jin Jin [0093 6651]: "The Great Might of 3,000 Imported Technologies"]

[Text] Importing advanced technologies from abroad for the technical transformation of the existing enterprises is an important strategic measure to accelerate the socialist modernization drive. In 1982, the State Council decided that the State Economic Commission should take charge of the importation of 3,000 advanced technologies for the technical transformation of the existing enterprises. Great achievements have been made in this work.

From 1983 to 1985, China has used its foreign exchange to import technologies through various channels for the transformation of its existing enterprises, and the 3,000 advanced technologies were part of them. Most of these 3,000 technologies were single items or key items of the late 1970's and the early 1980's, being mainly used to speed up the technical transformation of the existing enterprises in various sectors of the national economy and in the coastal and border regions as well as the hinterland.

According to their practical application in the past several years, all these 3,000 imported technologies have played a great role in improving the performance and raising the technical standards of some industrial products, speeding up the updating of products, and filling some gaps in domestic production. The machine-building industry imported more than 500 items, mostly for manufacturing basic parts, basic machines and test instruments. These technologies have raised 5,000 products to the levels of the late 1970's and the early 1980's, and these products have in turn promoted the technologies of producing raw materials and basic components. Shanghai's low-voltage electrical appliances trade imported a whole set of technologies with which it updated all its old products and at the same time successfully trial produced some new materials. The Shanghai Electric Welder Plant assimilated the advanced foreign technologies in manufacturing electric welding machines, and systematically developed their own new models, thus raising the standards of its products from those of the 1950's to those of the late 1970's. It also developed the three-phase low-frequency welder, the second-grade rectifying welder, and the electron-beam welder, none of which had been produced in China before. If we did not import these advanced



technologies and simply groped in the dark behind closed doors, the development of many products would take at least several years or even more than 10 years.

The application of these 3,000 technologies has not only narrowed the gap between China's industrial products and those of the advanced world levels, but also yielded good investment returns in addition to the great potential in foreign exchange earnings. According to an analysis of the imported items which have already been put into operation, an investment of 10 yuan can, on the average, increase the output value by 25-28 yuan and the profits and taxes by 5-8 yuan each year; and the investment can be fully recovered in 3 years.

The potential of these technologies in foreign exchange earnings through exports is shown by the number of products which have reached the international level. In Tianjin, 40 of these technologies have produced 76 varieties of exportable goods; 56 other technologies are now capable of producing 110 varieties of goods for export; and still 49 others are capable of producing substitutes for imports. Some of them can earn and save \$334 million in foreign exchange each year, so that the foreign exchange spent on them can be fully recovered in slightly more than 1 year.

Now let us look at the results in different industries. In 1984 and 1985, Tianjin's woolen textile industry with its imported technologies can increase its output of woolen fabrics by 3.9 million meters and earn \$34.8 million in foreign exchange each year. In the same years, Shanghai's candy trade spent \$3.3 million in foreign exchange to import the technology for transforming its production line, and earned \$6.5 million in foreign exchange through exports each year. Shanghai's silk company spent only \$3.26 million in importing five production lines for silk printing, which increased its silk exports by 10 million meters and its foreign exchange earnings by \$50 million. Each year, the foreign exchange earning capacity of these trades was several or more than 10 times the amount of foreign exchange spent on the imported technologies.

As for mechanical and electrical appliances, there was an urgent need for submersible oil pumps in the petroleum industry. A complete set of software technology was accordingly imported in the form of technology-foreign trade combination, and in 1987, there will be a productive capacity for 1,000 sets of these pumps which will help the state save \$75 million each year.

Practice has proved that by importing advanced technologies, China is able not only to raise the technical standards of its industry rapidly, but also to improve the economic results of its enterprises and to find an effective way for its products to enter the international market.

The purpose of importation is to strengthen our self-reliance. Since 1984, when China began to assimilate the imported technologies and to produce new products of its own, its trial manufacture of single machines has developed into the production of complete sets of equipment. The method it used was to pay close attention to the advanced technical standards of certain popular products in the world, and then combine the assimilation of advanced technologies with the development of new products and new production techniques. The plants producing the main machines, the auxiliary machines,

the supplementary raw materials and components; the related scientific research units, and the universities and vocational colleges were organized for cooperation in the systematic importation and development of complete sets of technology. In Shanghai, 12 coordinated processes were organized for the technologies of printing, model-making, and producing "artificial intelligence" products and 9 other lines of products. In Tianjin, 26 coordinated processes were organized, including those for broadcasting, television, and numerically-controlled lathes. Based on the statistics of 10 industrial corporations in the city, Beijing assimilated 189 different imported technologies and put into operation 117 of them. The technical properties of about 90 percent of the China-made equipment, produced with the assimilated imported technologies, were up to the same standards of similar foreign products, and 2-3 percent of them were even above these standards. The Beijing Glass Instrument Plant, for example, used the technology learned from abroad to transform its production techniques in a systematic way. Then, with the cooperation of other units in the country, it produced a complete set of production equipment, transformed its production line, and increased the output of drug ampoules 50 percent and the output of heat-resisting articles five-fold. The quality of its ampoules was up to the international standards, and its heat-resisting articles, which won a silver medal from the state, were also up to the advanced world levels, according to assessments by foreign experts.

The success in the importation of technologies has stirred up our thoughts, widened our horizon, raised the technical standards of China's industry, and stimulated its initiative in exploitation. At present, the work of importing technologies for the technical transformation of the existing enterprises has only just begun and is far from adequate for the development of the national economy, especially in view of the development of science and technology in the world and the continued emergence of advanced scientific and technological achievements. We must systematically import and apply these technologies and then master and develop them before China's technological development can be accelerated. During the Seventh 5-Year Plan, therefore, the importation of another 3,000 advanced technologies must be organized as an impetus to technical advancement among China's present enterprises.

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## INDUSTRY

### DEVELOPMENT OF FUJIAN'S CHEMICAL INDUSTRY APPLAUDED

Fuzhou FUJIAN RIBAO in Chinese 6 Feb 86 p 1

[Article by Staff Office of Provincial Petrochemical Industry Bureau:  
"Thirty-One Percent of Fujian's Chemicals Rated as Fine-Quality Products"]

[Text] Fujian's chemical industry achieved remarkable economic results during the Sixth 5-Year Plan as shown by the improved quality, the lowered material consumption, and the more efficient management. In these 5 years, the GVIO increased 46.4 percent, and the taxes and profits realized increased 106 percent.

Fujian's chemical industry was at a fledgling stage at the end of the Fifth 5-Year Plan period. Since 1981, the chemical industrial enterprises have devoted their efforts to the improvement of management with better economic results as their central goal. They began the improvement with an all-round reorganization and by now, 92 percent of these enterprises have completed their reorganization in five respects. On the basis of the reorganization, they launched the "three-creation" (namely, the creation of leakage-proof plants, clean and civilized plants and "six-good" plants) campaign, and selected 16 enterprises for experiments in the "modernization of enterprises management." This measure has greatly improved the quality of management and raised the enterprises to a higher level. According to statistics, 18 enterprises have won the title of "leakage-proof plants," and one has won the title of "clean and civilized plant." Furthermore, 148 standards were set for the provincial enterprises, thus doing away with the practice of nonstandardized production in the system; and the production of 11 products was organized according to international standards. The use of these standards has greatly improved the quality of products, and by the end of 1985, the system had four products recognized by the state, 13 products recognized by the ministry and 29 products recognized by the province, all as fine-quality products. Thus 31 percent of the products were rated as fine-quality products.

During the Sixth 5-Year Plan, Fujian's chemical industrial enterprises also made great efforts in energy conservation, in view of their heavy energy consumption in production. They actively introduced new techniques among the old enterprises, and gave priority in the supplies of raw materials and electricity to those who were able to increase their output by practicing

economy. The small nitrogenous fertilizer trade which had for a long time incurred losses was a heavy energy consumer. In the past 5 years, after the technical transformation for energy conservation, the total energy consumption for each ton of ammonia produced was reduced from more than 25 million kcal to 20.87 million kcal, a saving of more than 760,000 tons of standard coal. Since 1983, when the losses were turned into profits, this trade has made a profit of more than 26 million yuan, and the Yonggan Synthetic Ammonia Plant of Fuzhou's second chemical industry won the title of "advanced unit in national energy conservation."

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INDUSTRY

FUJIAN'S LIGHT, TEXTILE INDUSTRIES SHOW INCREASES

Fuzhou FUJIAN RIBAO in Chinese 2 Feb 86 p 1

[Article by Provincial Light Industry Bureau: "Technical Advancement in Fujian's Light and Textile Industries through Utilization of Foreign and Overseas Chinese Capital; Taxes and Profits in 5 Years Exceeded 600 Million Yuan; Exports Account for 30 Percent of Provincial Revenue in Foreign Exchange"]

[Text] New achievements were made in Fujian's light and textile industries in the course of readjustment and reform during the Sixth 5-Year Plan. Compared with 1980, the gross output value increased 59 percent with an average annual increase of 10.9 percent. This annual increase was above the national average. The taxes paid and profits delivered totaled 653 million yuan, a 21.58 percent increase over the Fifth 5-Year Plan period. Its exports accounted for 30 percent of the province's foreign exchange earnings. The major products, especially the consumer goods for the people's daily use, have increased not only in quantity, but also in variety with improved quality. Two products won the state's gold medals; five won the state's silver medals; 39 were rated as fine-quality products by the ministries; and 102 others were so rated by the province. There were 432 new products in regular production after successful trials, in addition to 12,932 "four-new" products. Design awards were given to 63 light and textile products by the State Economic Commission, the Ministry of Light Industry, the Ministry of Textile Industry, the Eastern China Region, and the province. Among the products of national innovation were the bonding ingredients for the caps of ink bottles produced by the Fuzhou Printing Ink Plant, the No 6 vacuum flasks of the motor-driven air pressure type produced by the Fuzhou Vacuum Flask Plant, the longan paste produced by the Putian Food Plant, the citrus juice produced by the provincial light industry research institute, the FV-1 modified polyvinylether sizing material produced by the Fujian Vinyl Mill, the bath towels with floral designs produced by the Nanping Knitwear Mill, and 10 others. Of the 63 products, 22 are up to the advanced national standards.

The light and textile industries have developed with the aid of advanced technology. During the Sixth 5-Year Plan, 54 items of scientific research in the light and textile industries were planned by the province or the enterprises themselves, and 46 of them have been completed and duly appraised. Among these items are the techniques--which won the third prize from the

state--for the selection of fine-quality mushrooms for canning and for increasing the per-unit output of these mushrooms; and 29 others which won prizes for scientific achievements from the Ministry of Light Industry and the province. The ultraviolet-ray-solidified metal stenciling which was trial manufactured jointly by the Fuzhou Printing Ink Plant and the Tianjin Synthetic Material Industry Research Institute, was appraised at the provincial level last year. The major technical indices were found to be up to the advanced foreign standards for similar products. Compared with the traditional printing, the use of this solidified metal stenciling reduces electricity consumption by 90 percent, increases the efficiency three- or four-fold, and greatly reduces environmental pollution.

Taking advantage of the "overseas Chinese capital and the preferential treatment given," the light and textile industries in the province have invested a total of 509 million yuan in 525 technical transformation projects, some of which were for the development of urgently needed articles for daily use and for increasing the output of highly competitive products, such as stencil paper, beer, canned food, beverages, bicycles, baby food, glass containers, chemical fibers and woolen textiles.

During the Sixth 5-Year Plan, Fujian's light and textile industries have invested a grand total of 603 million yuan in capital construction, and increased the value of fixed assets by 457 million yuan.

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## SMALL-SCALE ENTERPRISES

### TOWNSHIP, TOWN ENTERPRISES SUCCESSFUL IN 1985

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 1 Feb 86 p 1

[Article: "Gratifying Achievements in China's Township and Town Enterprises During 1985; Township and Town Enterprises Display Their Vitality Under Macro-economic Controls; China Had 1.7 Million Township and Town Enterprises in 1985 with 64.16 Million Employees, Gross Value of Output Reached 248.1 Billion Yuan, 40 Percent of the Gross Value of Output in Rural Society, and the Value of Output in Township and Town Industries Accounted for 20 Percent of China's Gross Value of Industrial Output"]

[Text] A reporter has learned from the State Economic Commission Agriculture Bureau and the Ministry of Agriculture, Animal Husbandry, and Fishery that the number of township and town enterprises increased from 1.65 million in 1984 to 1.7 million in 1985. The number of private and association enterprises increased from 4.41 million to 9.24 million. Total employment reached 64.16 million, 18 percent of the rural labor force. The gross value of output in township and town enterprises reached 248.1 billion yuan, a net increase of 77.1 billion yuan or 45 percent over the 1984 figure of 171 billion yuan, and it accounted for about 40 percent of the gross value of output in rural society. The value of output in township and town industries was estimated at roughly 180 billion yuan, or roughly 20 percent of the gross value of industrial output in China.

The role of township and town enterprises as pillars of the rural economy is becoming increasingly apparent. In some regions where agricultural output declined because of natural disasters, the development of industrial and sideline production not only prevented a decline in peasant incomes but actually led to an increase. This fully confirms that the CPC's strategic decision concerning readjustments in rural industrial structures is a correct one.

There were several characteristics in the development of China's township and town enterprises in 1985. One was that the rate of growth in private and association enterprises was greater than that of township and village enterprises. The second was that the rate of development in some areas that have just begun to develop township and town enterprises was greater than in those provinces and municipalities that already had a foundation of the enterprises. The third was that the rate of development in the construction industry and

tertiary industries was greater than that in industrial production. The fourth was that the construction, food and tailoring industries developed faster than other industries.

The developmental pace and economic results of township and town enterprises increased simultaneously during 1985. Taxes paid to the state are expected to total 118 million yuan, a 31-percent increase. Net profits reached 251 million yuan, up by 34 percent. Total income from sales and labor services reached 234.7 million yuan, 94.6 percent of the gross value of output, and there were no product overstocks. Productivity per employee increased from 3,283 yuan in 1984 to 3,869 yuan in 1985, an 18-percent increase. Profits and taxes created by each worker increased from 532 yuan to 575 yuan, up by 8 percent.

New improvements have been made in the quality of township and town enterprise products. According to incomplete statistics, 6 township and town enterprise products were evaluated as the best in China in 1985, 240 were evaluated as the best in a ministry, and a large number of products were considered the best in some provinces and municipalities.

The state strengthened macroeconomic controls in 1985. There were substantial price increases for raw materials and market competition was stimulated. Township and town enterprises have relied on the external thrust of urban and rural reforms and utilized the internal vigor of their own strengths to attain new developments. They have shifted from the past pattern of depending on loans for capital to self-reliance for capital accumulation. The amount of capital raised and imported totalled 10 billion yuan in 1985. Their developmental focus has shifted from extension to achieve expanded reproduction to a focus on their inherent potential, reforms and transformation. To achieve technical transformation and product renewal and replacement, statistics from 23 provinces and municipalities indicate that the enterprises imported a total of about 30,000 technical items and also accelerated the importation and training of talented personnel. More than 90 percent of the enterprises in China have implemented contracted responsibility and many enterprises have reorganized groups, administration and management, quality and economic results and made achievements.

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## SMALL-SCALE ENTERPRISES

### ON DISTRIBUTION OF TOWNSHIP, TOWN ENTERPRISE PROFITS

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 1 Feb 86 p 1

[Article: "All Areas Have Linked Up with Agricultural Banks and Township and Town Enterprise Administrative Organs To Focus on End-of-Year Profit Distribution in Township and Town Enterprises"]

[Text] To help township and town enterprises make rational use of their profits, increase their own capital accumulation, and reinforce their internal vitality, agricultural banks and administrative organs in all areas have joined together to aid township and town enterprises in their end-of-year profit distribution and supplementing the capital they own. Jiangsu, Shanxi, Liaoning, Jilin, Sichuan, Wuhan, Guangzhou, Hunan, and other areas have treated this work as the order of the day. The actual methods used were:

1. They helped the enterprises check their costs and profits. Before distributing the profits, Jiangsu, Shanxi, Sichuan, and other areas first of all assisted the enterprises in comprehensive examination of their financial work and they supervised and urged them to keep accounts in strict accordance with financial accounting systems and compile good accounting reports. This allowed them to check their costs and profits.
2. They helped the enterprises to check their circulating capital and calculate the proportion they owned themselves. The method suggested by Wuhan to check the amount of circulating capital was to use the sales-capital rate over the preceding 3 years as a reference, the sales-capital rate in the preceding year as a basis, and sales plans for the current year as a foundation. Enterprises, enterprise administrative departments and banks holding their accounts made joint calculations and discussed a rational amounts of circulating capital. The method used in Guangzhou to calculate the proportion of the capital owned by the enterprises themselves was that enterprises operating year-round calculated according to the yearly average amount of the circulating capital they owned, while seasonal farm and sideline product processing enterprises calculated the amount of circulating capital they held according to a monthly average.
3. They implemented supplementary planning and signed supplementary contracts. For enterprises whose circulating capital was less than 30 to 50 percent of their assets, the agricultural banks and enterprise administrative departments in all areas provided supplements for a limited period according to the

enterprises' own capital situation and profit plans, and they assisted in implementation of the supplementary plans. Some used contracts to firm up supplementary plans and increase restrictions. Agricultural banks in Jilin, Sichuan, Shanxi, Jiangsu, and other areas stressed that they would stop issuing loans to enterprises that have no circulating capital or which have not reached the specified proportions and which receive supplements that are not as stipulated.

4. They have focused on profit distribution to encourage the enterprises to make rational use of their profits. Wuhan decided that the enterprises could retain 80 percent of their after-tax profits, 70 percent of which is to be used as a production fund for renewal and transformation and for their own circulating capital, while 10 percent is to be used for employee welfare. The remaining 20 percent in after-tax profits is to be turned over to administrative departments for assistance to enterprises, industrial subsidies to agriculture, share dividends, and so on. Jiangsu has demanded that no less than 60 to 70 percent of after-tax profits be retained by the enterprises and that this proportion should be somewhat larger in areas that have just begun to develop enterprises. Some areas also have decided that the after-tax profits of enterprises with outstanding equipment loans should not be turned over to higher authorities but should be used instead to fill out their production development funds.

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## CONSTRUCTION

### MAJOR REFORM IN PROCEDURE OF CAPITAL CONSTRUCTION DECISIONS

Beijing LIAOWANG in Chinese No 3, 20 Jan 86 pp 14-15

[Report on interview with Shi Qirong [4258 0796 2837], general manager of China International Engineering Consultation Corporation by Cheng Xi [4453 2569]: "A Major Reform in the Procedure of Capital Construction Decisions"; date and place of interview not given]

[Text] In December 1985, the China International Engineering Consultation Corporation held a board of directors meeting in which a recent decision of the State Council was relayed: In the future, no key construction projects, including the importation of complete sets of equipment from abroad, can be initiated on the direct authority of the administrative leadership alone. Instead, it should be first appraised by the China International Engineering Consultation Corporation as instructed by the state, and then referred to the State Planning Commission for overall balancing before the inclusion of the project in the construction plan can be determined. This new decision was hailed as an important measure in enhancing the scientific nature of policy decisions on construction projects, as well as a major reform in the procedure of capital construction decisions. For a better understanding of the practical significance and the concrete substance of this reform, our correspondent had an interview with General Manager Shi Qirong of the China International Engineering Consultation Corporation.

#### The Scientific Nature of Policy Decisions as a Deciding Factor in the Success or Failure of Engineering Projects

General Manager Shi Qirong recalled many key projects that have been successfully completed since the founding of the People's Republic. However, many of these projects did not yield the desired results. In some projects, the plans were repeatedly altered while the construction was still in progress, thus causing interruptions, delays and waste of money. Sometimes, even after the completion of construction, neither the internal nor the external supportive projects were inadequate while the supply, production and marketing were poorly coordinated. As a result, the project could not play its full role. The cause of this situation, viewed from the standpoint of capital construction management, is two-fold: First, the lack of intensive preparatory work, in-depth appraisal, and scientific foresight. Second, the procedure of policy decisions by exclusive administrative authorities, the

failure to enlist the services of the experts, scholars and engineers in technical and economic appraisals and in the choice of plans, and, above all, the absence of a detached and impartial engineering consultation organ for the primary function of supplying feasibility data to the decision makers. The final outcome was that some departments, in the quest for local interests, vied with one another to start more projects and obtain more money, even by exaggerating the advantages and concealing the disadvantages; or by using the "fishermen's" tactics of deliberately reducing the budgeted investment first and requesting additional funds later. This was the main reason why we could not possibly control the general scale of capital construction.

Comrade Shi Qirong continued: Practice has proved that the correctness or incorrectness of a policy decision is the key factor of success or failure in construction. Since the 3d Plenum of the 11th CPC Central Committee, the central authorities including the State Council have repeatedly stressed the need to overcome rashness and to take a scientific approach in construction, and to improve the economic results as the central task. Two years ago, Comrade Chen Yun proposed that all new projects in the future should be appraised by the relevant technical and economic experts before deciding to proceed with the work, and that, as an established rule, no individual from the political bureau down to the commune party committee level can approve any project. The recent decision of the State Council in entrusting the China International Engineering Consultation Corporation with the work of the feasibility study report is based on the lessons learned from the past experiences in construction.

#### An Effective Way To Control Investment Scale

Speaking of the great significance of the China International Engineering Consultation Corporation's participation in these policy decisions, Comrade Shi Qirong said: Certain reforms were carried out in China in the procedure of decision-making on construction projects in the past; but the measures were confined to the centralization or decentralization of the authority to examine and approve such projects, and only the administrative departments were involved in these reforms. The participation of independent engineering consultation organs in the appraisal and assessment has rarely received due attention. Even though some experts or scholars were occasionally invited to participate in the appraisals, their views were never taken seriously. In November last year, the State Council approved the State Planning Commission's report which clearly stipulated that in the future, the feasibility study reports for all large and medium-size capital construction projects and all technical transformation projects beyond a certain limit, as well as the designs of all large engineering projects must be evaluated and examined by the China International Engineering Consultation Corporation as authorized by the State Planning Commission; and that the State Planning Commission will then conduct an overall balance to determine whether or not the project can be included in its plans. The State Council also approved the State Planning Commission's proposal to expand the China International Engineering Consultation Corporation's scope of business activities and to strengthen its leadership, its structure and its personnel so that it will become an independent economic entity with the general manager assuming full responsibility under a board of directors. This is an important reform in the

system of capital construction management. The main purpose of this reform is to change the former practice of the administrative leadership and the planning departments in examining and approving construction projects--the practice of making decisions before planning or with little or no planning--so that, hereafter, they will plan before making decisions. In other words, they must plan carefully in order to make wise decisions, to their policy decisions more scientific, and to supplement them with the necessary precautionary measures. In this respect, the role of the engineering consultation corporation as an adviser or a think-tank is indispensable. In foreign countries, the consortiums and banks always entrust the job of feasibility study to some experienced and reputable engineering consultation corporations before granting loans for engineering projects. Now is the time for us not only to recognize this necessity but also to exert our efforts in this direction. This is a very big improvement. More important still, such policy decisions also play a great role in macroeconomic results. If every specific project is rationally planned and the required funds and materials are accurately calculated, the state will have the necessary data for overall balancing in capital construction, and an easier control over the scale of investment.

#### A Glorious and Arduous Task Ahead

Looking forward to the task of economic construction, Comrade Shi Qirong said: During the Seventh 5-Plan period, we will continue to undertake the important projects of alteration, expansion and construction for the energy, transportation, raw material and other trades, and will be responsible for the feasibility study and the evaluation of the designs of some large engineering projects. We will also accept requests from the government departments, the economic and financial institutions, and the enterprises, establishments and social bodies at home and abroad for our technical services in engineering construction. We will, furthermore, be prepared to provide consultation and contracted services selectively throughout the entire construction process including the feasibility study, engineering designs, project management, personnel training and acceptance checks upon completion, in small-scale civilian projects. If required by the customers at home and abroad, we can dispatch our engineering or economic management personnel to provide on-the-spot technical or economic consultation services. We will also be ready to cooperate with the relevant units abroad or form joint ventures with them in technical and economic consultation services. Obviously, the China International Engineering Consultation Corporation is looking forward to a very glorious and arduous task. Our responsibility will be heavy and our future is bright. He added: All our personnel have the determination to work hard and to live up to the people's expectation.

Finally, Comrade Shi Qirong gave our correspondent a profile of his corporation.

This corporation was founded in 1982. At that time, its main function was to provide technical consultation concerning the effective use of foreign funds and unified cooperation in engineering projects as well as other technical consultations at home and abroad. In the past 3 years, this corporation has done a great deal of work in helping the old enterprises with their technical

transformation, in evaluating some important projects and in providing technical consultations concerning the plannings for the coastal cities and the SEZs, in addition to exporting some engineering technologies. Now, this corporation has 39 affiliated companies and nearly 20,000 employees including about 3,000 senior engineers, all capable of providing engineering consultation services. With the help of its "committee of experts," the corporation has made every possible effort to look for the real talents scattered among various departments, employ them, and let them participate in the feasibility study of key projects. The corporation also strengthened the exchange of professional and technical information with its counterparts over the world, and, whenever necessary, invited some prestigious experts to participate in its work in China.

Shi Qirong said in conclusion, the work of evaluating projects and offering consultations is new to China. As for the way to improve our work, we have to rely on the summing up of experiences, since the economic laws and the standardization methods are inadequate and the pricing system is unscientific.

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## CONSTRUCTION

### SHANGHAI INVESTS 1.7 BILLION YUAN IN CITY CONSTRUCTION

Shanghai WEN HUI BAO in Chinese 17 Jan 86 p 1

[Article by Xu Min [1776 2404]: "Shanghai Invests 1.7 Billion Yuan in City Construction This Year"]

[Text] The following information is supplied by the department concerned: Proceeding from the strategic objective of transforming and developing Shanghai, the municipal construction authorities has allocated 1.75 billion yuan, a 42.3 percent increase over 1985, for investment in city construction, including 1.34 billion yuan, a 30.6 percent increase over last year, in infrastructural facilities for the city. This shows the municipality's intention to improve the infrastructural facilities and the environment for investment in the first year of the Seventh 5-Year Plan period.

As we understand, the infrastructural projects are mostly related to the large and medium-size key engineering projects, including the project of diverting water from the Huangpujiang, the Pudong Gas Plant, the cross-river tunnel at Yanan East Road, the sewage treatment plant in Longhua, the trash dumping ground in Laogang, some new passenger train stations, the Zhongshan ring road, the grade-separated bridges for vehicle traffic, the widening of the Hongqiao Road, and other city amenities in and around the new Hongqiao District.

Based on the availability of materials and the environmental and other supportive facilities, the housing program for the current year will include the completion of 4.2 million sq m of floorspace, in addition to 400,000 square meters of supplementary public buildings. All the houses should be delivered for use upon completion so that the housing situation could be considerably improved.

The technical and preparatory work for such giant projects during the Seventh 5-Year Plan as the subway train, the Huangpujiang Bridge, and the Ningguo Road tunnel is being stepped up and expected to be completed within this year.

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CSO: 4006/788

## CONSTRUCTION

### GRATIFYING SITUATION IN VILLAGE, TOWN CONSTRUCTION

Beijing JIANZHU [BUILDING CONSTRUCTION] in Chinese No 1, 7 Jan 86 pp 11-12

[Article by Liu Fang [0491 2455]: "Report on the National Village and Town Construction Conference"]

[Text] As the rural economy surges forward, village and town construction throughout China presents an encouraging picture of prosperity; centuries of haphazardness, confusion and drifting are now at an end. Towns and villages today are gradually being put on the track of planned development under good leadership.

The national report conference on village and town construction work held in Beijing November 9-14, 1985 by the Ministry of Urban and Rural Construction and Environmental Protection reviewed comprehensively the nation's experience in village and town construction since the second national rural housing work conference and, in light of the spirit in which the CPC Central Committee drew up the Seventh 5-Year Plan, considered the direction and tasks of village and town construction work in the coming 5-year plan. Comrades present believed that the convening of the conference at this juncture--when the Sixth 5-Year Plan is drawing to a close and the Seventh 5-Year Plan about to begin--can only give the future development of village and town construction a powerful boost.

#### A Village And Town Construction Exhibition On An Unprecedented Scale

The national village and town construction exhibition, organized by the ministry to coincide with the conference, used a wealth of data, charts, pictures, models and exhibits to illustrate how China's village and town construction has been thriving. Twentyeight provinces, autonomous regions and municipalities directly under the central government took part in it, the first such display in the 38 years since the PRC was founded. According to incomplete data, about 30,000 people visited the exhibition, who were so dazzled by the endless array of exhibits that they gasped in admiration. So this is the nation's countryside? Look at these neat and original-looking "Western-style houses" dotting the landscape, or those straight, wide and tree-lined streets. The exhibition completely banished the old public image of the countryside as a backward, dilapidated and chaotic place. New socialist villages and towns are rapidly rising in the Divine Land.



As one lingered in the exhibition hall, one was most struck by the fact that the countryside is changing: peasants' housing, living environment, value system, daily habits, life style--all are changing. Statistically, from 1981 to 1985, newly built peasant housing and assorted public buildings in villages and towns amounted to 3.3 billion and 500 million square meters respectively, exceeding both the targets in the Sixth 5-Year Plan and total construction in the preceding 30 years. The quality of peasant housing has also improved steadily, resulting in significantly better housing conditions for hundreds of millions of peasants. In the Nei Monggol plains, 90 percent of the herdsmen have built permanent houses, basically ending their nomadic way of life. At Wuzhishan in Hainandao, 63 percent of the peasants of the Li and Miao nationalities, who had lived in thatched cottages generation after generation, have now put up brick-and-tile houses according to the plan. Affluent peasants in the Changjiang and Zhujiang deltas and the Xiamen-Zhangzhou-Quanzhou triangle in Fujian have even built large numbers of two- or three-story "villa-style" houses. In many areas, new socialist villages and towns have begun to take shape, transforming the face of the countryside. Pictures and models of such villages and towns as Caihe Cun and Yufushangying Cun in Beijing, Bixi Zhen in Jiangsu, Hongshan Xiang in Zhejiang and Dagang Zhen in Guangdong were the focus of attention at the exhibition.

Even as they devote material and financial resources to the construction of residential housing, the masses of peasants have not ignored the construction of service, production, public, educational and welfare facilities. In relatively prosperous areas, public buildings such as theaters, libraries and cultural centers have sprung up to satisfy the rising material and cultural needs of countless peasants who are gradually becoming better off. Running-water projects are developing apace; universal running water supply has even become a reality in certain regions. No longer do peasants in many areas in Gansu have to drink cave water or bitter salt water; so far 20 million people in that province are drinking groundwater regularly. Late 1985 statistics show that 840,000 peasants in Tianjin have running water, 90 percent of the target of supplying each and every household with running water. Niuzhuang Zhen in Haicheng County, Liaoning Province, has changed its priorities; instead of spending money on office and theatre construction first, as it did in the past, the village has raised money to build a 50,000 square meter rural trade market, put up a Japanese-made 1,200-ton waterworks to solve the drinking problem of 2,000 households, open or repair seven roads, build two teaching buildings and complete a heating system with a heating area of 3,000 square meters, all within the past 3 years.

Leadership, Planning And Experimentation Are Major Guarantee Of Successful Construction

In order to do a good job in village and town construction, a vital issue affecting 800 million peasants and their descendants, the CPC Central Committee and the State Council give it top priority. Over the past few years, leading CPC comrades like Hu Yaobang, Deng Xiaoping, Zhao Ziyang, Li Xiannian and Wan Li have all inspected the countryside several times and issued clear instructions on village and town construction and development. The former State Capital Construction Commission and departments concerned

have also put forward the policy, "overall planning, correct leadership, depending on the masses, self-reliance, adapting measures to local conditions, gradual construction." Since its establishment, the Ministry of Urban and Rural Construction and Environmental Protection has also organized several conferences to exchange experience in village and town construction work, played an active role and provided leadership in the training of village and town construction personnel, formulated construction plans and launched construction design competitions, etc.

The top leaders of many provinces, autonomous regions and municipalities directly under the central government personally take charge of village and town construction, listen to reports, provide practical guidance, conduct frequent inspections and urge everybody to do his job and solve problems expeditiously. Every May, Beijing's leading comrades lead a group of relevant department heads, county CPC committee secretaries and county chiefs to the countryside for an in-depth look. This is followed by a preliminary assessment in October and a summing-up at year end. These actions have now been institutionalized and become a regular practice. The Tianjin municipal government has produced the "Ten Decisions to Improve the Livelihood of the Rural Population" for 2 successive years. In addition, relevant departments in the municipal government and districts, counties and bureaus have drawn up concrete plans on how to assist villages and towns, with the municipal leadership inspecting the implementation of such plans on a quarterly basis. Beijing, Jiangsu, Jilin, Fujian, Guangzhou, Ningxia and other places have all been tackling the training of county and village heads in earnest. After they returned to their jobs, they put market town construction on their agendas, played a leading role in village and town construction and came up with major achievements in no time.

In accordance with the demands of the ministry, localities have conscientiously been formulating plans for village and town construction. Up to mid-1985, over 75 percent of the nation's villages have completed their village market town planning. Most of such plans meet the criteria of logical distribution, land economy and providing guidance for present construction. In places like Beijing and Shanghai, detailed village and town planning has basically been completed and the plans are now being examined prior to acceptance. Market town and village planning has also been completed in over 10 provinces and municipalities, including Guangdong, Hubei, Shandong and Liaoning. Efforts are now afoot in those places to refine and elaborate the plans.

Because of the strong momentum in housing and market town construction in the countryside in recent years, many provinces and municipalities have devoted a good deal of attention to pilot projects to prevent haphazard development. They insist on two major criteria for experimentation: first, local leaders must take it seriously and support it; two, the area must be relatively well developed. They have also strengthened leadership over the experimental projects to ensure their standards. Pilot projects carried out under their supervision usually have a high popularization value.

## The Development of Qualified Personnel Is An Urgent Task In Village And Town Construction

China's village and town construction rests on a shaky foundation: it has so few professional and technical personnel that they fall far short of meeting the urgent needs of present tasks. In recent years, localities across the nation have dealt with the development of intelligence and the training of qualified personnel as a strategic task and provided the minimum conditions for village and town planning.

According to reports delivered at the conference by the provinces, autonomous regions, municipalities directly under the central government and urban and rural construction agencies at the provincial, prefectural and county levels have provided training in the rudiments of village and town planning since 1982, using a variety of approaches such as short training courses and commissioning other agencies to do the training. At the end of 1985, a total of 500,000 people have received such training, forming a preliminary technical contingent in village and town construction. This contingent has played an important role in village and town planning and is now the backbone of village and town planning, construction and management. Everywhere village and town construction schools and technical senior high schools have been set up to develop professional personnel. Also, students are recommended for admission to technical secondary schools and colleges. In addition, provinces and municipalities with powerful technical resources, like Beijing, Tianjin, Liaoning, Jiangsu and Zhejiang have mobilized urban planning, design, building, scientific research and other units together with colleges and universities concerned to funnel technology toward the countryside and help villages and towns in planning, design and construction. They also help train qualified personnel and offer technical consulting services, etc.

For the time being, however, personnel shortages remain a basic problem in village and town construction, with the need for personnel in village and town planning, construction and management being particularly acute. To meet such a need, we must emphasize the training of the major technical contingent as well as that of junior personnel and, through a variety of methods and approaches, turn out a large contingent of professionals competent in management, design and construction. In his concluding speech, Lian Zhong [1670 0112], vice minister of urban and rural construction, pointed out, "The training of personnel is a critical issue which helps determine whether or not village and town construction can continue to make progress. We must fully understand this point, otherwise important things will be held up." These words should provide food for thought for every leading cadre responsible for village and town construction.

## Comprehensive Development Is An Effective Approach to Accelerating The Pace of Village and Town Construction

Village and town construction currently confronts two practical difficulties: a shortage of construction funds and bottlenecks in material supply channels. An effective way to solve these problems is comprehensive development, which was the subject of a spirited discussion among many provincial and municipal delegates to the conference. Everybody agreed that rural housing construction

service companies, real estate development companies and village and town housing development companies established by many localities provide an excellent experience. The Baisheng Rural Housing Building Service Company in Gaomi County in Weifangshi, Shandong, offers a package deal, from planning to the delivery of the unit to the user. Peasants cite four advantages about this approach: first, reasonable charges; second, no bribery; third, the company is responsible for supplying both labor and materials; and fourth, fast work and good-quality products.

Even as localities everywhere do their best to succeed in village and town construction pilot projects, they also go in for comprehensive development enthusiastically, gradually replacing their past exclusive emphasis on housing construction with simultaneous attention to public facilities and infrastructural development. The counties of Honghu and Qianjiang in Hubei Province have founded a running-water development company with the aim of providing small towns in the area with running water by 1990. Wuhan approached the short-term construction and long-term planning of 100 small towns in its outlying counties by following exactly the requirements of comprehensive development.

Comrades at the conference believed that the comprehensive development of market towns must be preceded by reforms to do away with the problems resulting from current fragmentation and establish a unified management system. Furthermore, the success or otherwise of the comprehensive construction of a market town should be judged by its overall economic, social and environmental results. The consensus is that market town development should avoid some of the mistakes of urban construction in the past, such as environmental pollution. This and other issues in the comprehensive development of market towns must be seriously handled.

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## FOREIGN TRADE AND INVESTMENT

### HOW, WHY FOREIGNERS INVEST CAPITAL IN CHINA

Shanghai SHIJIE JINGJI WENHUI [WORLD ECONOMY FORUM] in Chinese 5 Jun 85  
pp 21-22

[Article by Jin Yanshi [6855 1484 4258]: "A Brief Discourse on the Reasons for and Characteristics of the Influx of Foreign Investments into China"]

[Text] As the world's economy has developed to this day, the places open for investments have rapidly shrunk, and the development of direct transnational investments has reached a new stage, a stage of "scanning the whole world." This presents a new challenge to traditional theories on capital exports. The influx of foreign capital into China is, furthermore, to a large degree determined by the direction and progress of China's reform of its economic system. This is another questions that can hardly be explained by traditional theories on capital exports. Observing the practice of the last few years, we can theoretically distinguish the following types of foreign capital influx:

1. Exploratory Investments: Up to now, more than 30 multinational corporations have invested in China. Their investments are generally not large and do not represent key undertakings by the corporations, but show a distinctly exploratory character. Some of these foreign-financed enterprises do not even keep their accounts in China. These are investments that are not focused primarily on the Chinese market and do not seek extra large profits, but are merely one of the ways by which the multinational corporations test China's investment environment and arrive at an overall assessment.

2. Investments of a Strategic Nature: These may be divided into two categories: One type focuses on China's natural resources. Most Japanese factories and firms belong to this type. The other type focuses on China's market, the so-called market of the 21st century. Investments of this kind frequently pay little attention to short-term profits, but show more concern for the long-term stability of China's open-door policy and the accessibility of China's natural resources and markets. Judging by current conditions, because of the uncertainty of China's natural resources and the obstacles in the domestic marketing channels, these investments grow at a comparatively slow pace, and those that have so far been made are mostly investments in preparation of the development of natural resources and investments of an advance nature or investments motivated by the opening of markets.

3. Investments of a Competitive Nature: Some enterprises that have had success with their investments in China are seen as precursors for placing investments in China by other enterprises in the same line of business. This is most evident in the case of Japanese enterprises. In our times, competitive investments have become one of the basic reasons for direct international investments. We may distinguish here two categories by the source of such investments: One type is competition that follows a party with whom there has been competition in the home country, and subsequently creating an emanation of this competition in a foreign country. Such is the case with the competition in the Chinese market by the Japanese automobile, electronics, and electric home appliance industries. Another type is the strategic competition in which the international competition between industries of two or more countries is transferred to or clashes in a third country. Such is the case with the competition in China between the West German and the Japanese automobile industries. In China this competition has brought forth a new pattern, which may be called a stimulation of investments of a semi-import replacement nature. In concrete terms, because of the problem of balancing foreign exchange, the products manufactured by foreign-financed or joint venture enterprises in the opened-up coastal areas, products that are sold domestically but for which accounts are settled in foreign exchange, particularly some components and substitutes which originally had been imported but are now merely processed by foreign-financed or joint venture enterprises (sometimes not even processed at all) and shipped into the hinterland, are driving out the products that had originally been imported. When this happens, certain enterprises abroad which had formerly exported the original products to China will shift their strategy to one of exporting capital, thus creating investments of a strategic nature, to protect their original export markets. This is obviously somehow connected with China's economic system and system of foreign exchange control.

4. Defensive Investments: In these days, direct investment by multinational corporations is merely a defensive measure to maintain a certain stability of the corporation. Because of the accelerated progress of technology and the frequent changes in the market, many modern companies will protect the stability of their profitable situation and their competitive position by adopting a business strategy of diversification in product sources and in the products themselves, while the traditional monopolistic companies with their specializations are in decline. Many foreign business firms invest in China for no other reason but as mere components in their main corporation's strategy of diversification; this may be called a strategy of attack as a means of defense. In China this method of defensive investment has produced a new pattern. The primary purpose of many enterprises coming to invest in China is to prevent by an early investment the entry of their competitors, mainly on the premise of thereby preventing loss of an opportunity in the more remote future. Although there is now a "systemwide seasonable stagnation" in Chinese investments, and a high uncertainty about many investment opportunities, this must not preclude farsightedness and lead to delays in participating when an opportunity presents itself, as otherwise one faces the possibility that a competitor may rush in ahead of oneself and one may lose the whole investment opportunity or the opportunity for a more favorable investment.

5. Transfer Investment: Some foreign businessmen come to invest in China for the manufacture of export commodities with the main objective of reducing production costs and raising competitiveness in the international market. There are three types of such investments: One type involves the transfer of markets. The foreign businessman comes to China to invest with the main objective of getting closer to the markets for his products, reduce shipping costs and for fear of missing pertinent information. For instance, the main objective of the Japanese investment in the Sanyo plant at Shekou is to maintain a firm grip on the Hong Kong and Southeast Asian markets. Soon after constructing this plant, the productivity of some production teams came close to or even exceeded production records of the same industry in Hong Kong, and its profit margin was as high as 30 or even more percent. Another type involves a territorial transfer, where foreign businessmen mainly take advantage of China's low wages and land rents to reduce the cost of production of their export goods. For instance, the Kaida Toy Factory, operated by Hong Kong businessmen, employs many young female workers from 10-some counties of Guangdong and markets its products in the United States with a profit margin of 60 percent and higher. The third type are transfers for tax reasons; they mainly take advantage of China's favorable tax situation for foreign investments; this type of foreign investment is concentrated in some special economic zones.

Even though motivations for the influx of foreign capital differ, these investments are very versatile in adjusting promptly to Chinese conditions, and there is also basic uniformity in the conditions that affect the direction of the foreign investments and the increases of follow-up investments. Among these the two major conditions are: (1) A business environment for comprehensive manufacturing processes; and (2) an open domestic market. Without an environment that suits foreign capital to take up independent comprehensive manufacturing, foreign capital will hardly be inclined to establish itself; and without a profitable domestic market, foreign capital will not feel secure for long-term operations; even highly sophisticated and large-scale factories as the Sanyo plant at Shekou are no exception.

In the opened-up districts along the coast, especially in the four special economic zones, an initial business environment has been created that is suitable for the existence of foreign capital investments. The formation of a business environment of this kind is determined mainly by four elements: (1) The special policies adopted by China for the opened-up areas; (2) the external environment of the opened-up areas; (3) the continuous inflow of foreign capital; and (4) the economic and cultural conditions that originally existed in the opened-up areas. However, a further perfection and expansion of this environment has suffered restrictions by the current economic system, and the opening of the domestic market has also suffered restrictions from the current economic system. The result was creation of a trend, namely the creation of an "on-the-spot" market, that is, to expand the regional market gradually and through a variety of economic connections into a nationwide market.

The gradual expansion of the regional market into nationwide economic connections and even to international economic connections was a trend not due merely to the influx of foreign capital; a far more important condition was

the strength of the commodity economy in the comparatively developed coastal regions at this juncture of inflowing foreign capital, an economy that expanded all by itself and rapidly grew to maturity. This was showing in the constant expansion of horizontal connections of the enterprises in the opened-up coastal belt, the emergence of a large number of business-type entities, the rapid inflation of the tertiary industries, the constantly growing strength of the internal-linkage faculties of the foreign-financed and joint venture enterprises, as a consequence of which there was the transformation of certain opened-up cities of the coastal area into business centers. For instance, Guangzhou and other cities increasingly became talent circulation centers, fund circulation centers, and information centers. Under these conditions, there emerged the typical international investment pattern of the 1970's: the influx of foreign capital for manufacturing industries, preceded by investments in services, as for instance, the case of certain foreign businessmen first developing export trade and related service-type installations, before establishing manufacturing enterprises in China. All this spurred on the coastal areas that had first been opened up to become not only precursors of opening up to the outside world, but also precursors in economic system reform, and, furthermore, to become highly effective investment areas, creating a strong attraction for domestic capital circulation.

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## FOREIGN TRADE AND INVESTMENT

### NEW FEATURES OF SHANGHAI'S CHINESE-FOREIGN JOINT VENTURES

Hong Kong JINGJI DAOBAO [ECONOMIC REPORTER] in Chinese No 4, 20 Jan 86 p 30

[Article by special correspondent Gao Xiaoxiao [7559 5135 4562]: "New Features in the Development of Shanghai's Chinese-Foreign Joint Venture Enterprises"]

[Text] Up to the present, the number of Chinese-foreign joint venture, cooperative management and foreign-owned enterprises, approved and established in Shanghai, is somewhat over 140, with direct foreign investments of almost \$1.2 billion, initiating for Shanghai a new stage of foreign economic cooperation and also presenting new peculiarities.

#### Development Toward Production, "Outward-Oriented" Enterprises

Half of Shanghai's joint venture and cooperative management enterprises are production and outward-oriented enterprises. The products which they manufacture mainly for export, earning foreign exchange, and products that are completely sold abroad are in such lines as gloves, suitcases and bags, porcelain plates, integrated circuits, cosmetics, plush toys, multipurpose telephones, electronic watches, sheeting, rubber shoes, and flowers and plants. Items of which a large proportion is exported are beverages, polyester monofilament, nylon zippers, medium and high quality furniture, and silk and brocade garments.

Many of the outward-oriented Chinese-foreign joint venture enterprises are "three-in-one combinations;" one side is the foreign trade department, which has information on foreign sales channels and international markets; one is the industrial or agricultural department, which is the production base, and which has an abundant manpower resource, traditional skills and a factory site at its disposal in the suburbs of the city; and one is the foreign or Hong Kong businessman, who will use his foreign capital to import equipment, technologies and raw materials. Most of these enterprises use advanced technology and equipment and produce top quality stylish products that attract the widest attention and interest among foreign businessmen, which has resulted in a huge increase in orders. For instance, Shanghai's first joint venture enterprise, the Shanghai Joint Woolen Spinning and Weaving Mill has installed advanced equipment and uses advanced technology in its comprehensive production, which comprises spinning, weaving and dyeing. This factory

produces the high-quality "Lianhe" brand angora sweaters, sheep wool sweaters, camel hair garments and lamb wool garments. These products sell well in 10 or so countries and territories, among them the United States, Japan and Saudi Arabia. The Shanghai elevator factory of the China Xunda Elevator Co., Ltd. is supplying the international market with all kinds of elevators, which are all up to international standards. Its products, such as the "shuang guang" elevators, the "qun kong" elevators, passenger elevators, litter hoists, freight elevators, and sundry elevator, are currently sold through an agency in Hong Kong and also exported to Southeast Asia, the Middle East, North Africa and Australia.

Enterprises of this nature are quick in starting up production and quick in showing results. For instance, the Xinhong Bleaching and Dyeing Plant had required only a little over half a year from the time negotiations were started to the time of starting up operations. The plant is currently in full production, and its entire production is sold abroad. The Jialaifu Shoe Co. produces 1.2 million pairs a year, all being sold abroad. The Hongma Embroidery Plant, established with Japanese capital, produces 2.1 million meters of lace, which are also all exported.

#### Increase of Technology-Intensive Enterprises

Technology-intensive and knowledge-intensive enterprises make up a large proportion of the Chinese-foreign joint ventures. For instance, many American companies have formed new companies together with certain Shanghai companies, such as the [Kasite] Software Co. and the [Kasite] Electronic Computer Co.; their products enjoy a certain reputation throughout the whole world. There is also the Chinese-American Wangan Co., manufacturing microcomputers, also a joint venture enterprise with high technology; its products will in the future be introduced into the international market. There are also several other modern enterprises with comparatively advanced equipment and technology, such as the Shanghai Bell Telephone Equipment Manufacturing Co., working with the participation of Belgian capital, manufacturing telecommunications material; the [Yaohua Pierjindun] Co. working with British capital participation, manufacturing float glass; the Shanghai Foxboro Co., working with American capital participation, manufacturing automated instruments and meters. All contribute to the change former techniques and technologies and to update outdated products. The Dazhong Automobile Factory, cooperating with capital from the FRG, because of the comprehensive character of automobile manufacture, will spur on the transformation of more than 100 horizontally-related industries. Most needed spare parts and components are also manufactured in this city. These technology-intensive and knowledge-intensive enterprises, therefore, play an important role in Shanghai's technological transformation, in the upgrading and updating of products and in the expansion of Shanghai's exports.

#### Steady Increase in the Number of Cooperating Countries and Territories

Among the joint venture enterprises, we see an ever widening circle of countries and territories that seek cooperation with Shanghai. Many of these enterprises are of international fame. Hong Kong territory accounts for half of the joint ventures, next comes the United States, with so far somewhat over

10 Chinese-American joint venture and cooperative management enterprises, of which the American Boatman Associates Ltd. has made the largest investment; it cooperates with the Shanghai Exhibition Center in building the northern hall of the Shanghai Exhibition Hall. Some of the European countries with cooperative ventures in Shanghai are Great Britain, the FRG, Belgium, France and Switzerland. Considerable investments by these countries are: the British [Pierjindun] Co. for the manufacture of float glass; the Belgian "Bell" investment for the manufacture of telephones, and the FRG's "Dazhong" investment for the manufacture of passenger cars. Among Asian countries, there are Thailand, Singapore and Japan. The Thai "Zhengda" Co. cooperates with Shanghai for the manufacture of motor bicycles, an enterprise also of some dimensions. Japan, starting last year--as a latecomer who is now surpassing the old-timers--has now begun to sign several joint venture and cooperative management contracts with Shanghai, some of the larger projects being the joint venture or cooperative construction of the Shanghai International Trade Center, the Shanghai Garden Restaurant, the Pacific Restaurant and a complex of high-class villas. But it is not only high-rise buildings and restaurants for Japan, as it recently also signed a contract with the Rihua Co. for the joint venture to manufacture hairdresser essentials. Recently, Shanghai's first joint venture with Australia was approved and set up; this is the Shanghai Gem and Jewelry Co., Ltd., specializing in the business of all kinds of pearls, gems and jewelry.

#### Chinese-Foreign Joint Venture Procedure Accelerated

Only 10 enterprises of each kind, of the joint venture and of the cooperative management enterprises, were approved during the first 4 years, from 1980 to 1983, while 35 joint ventures and 25 cooperative management enterprises were approved in the 1 year of 1984. In 1985, Shanghai achieved progress of breakthrough dimensions in attracting foreign capital. From January to September last year, 49 Chinese-foreign joint ventures and 27 Chinese-foreign cooperative management enterprises were approved and set up. These 76 enterprises brought in \$730 million of foreign capital; increases of 73 and 114 percent, respectively, compared with the preceding year.

At the same time, procedures for negotiations, examination and approval, importation, building construction and investments were much simplified, and the progress of actual construction work was much accelerated. Projects of which construction was finished and turned over for occupation in 1985 were the Yandang Mansion and the Lianyi Mansion; projects under active construction are the Jingan and Hilton Hotels, the Shanghai Garden Restaurant, and the branch of the Zhenjiang Restaurant. In the case of the northern hall of the Shanghai Exhibition Center, being built as a Chinese-American cooperative project, the ground has already been prepared for construction, which is to begin soon. The Shigui Pharmaceutical Manufacturing Co., Ltd., a Chinese-American joint venture, the Huanqiu Toy Co., Ltd., a Shanghai-Hong Kong joint venture, and the Shanghai Ace Suitcase and Bag Co., Ltd., a Shanghai-Hong Kong joint venture enterprise, are enterprises which have already started production. For many of these it took less than 1 year for the whole process from the start of negotiations, to approval, start of construction, completion

of factory building and start of production. It took only 10 months to complete the first stage of construction for the Shanghai Ace Suitcase and Bag Manufacturing Co., Ltd., a factory that covers an area of 2,100 sq m.

These new features add to the attractiveness of Shanghai for foreign investments. Chinese-foreign joint ventures also have the effect of helping adapt products to the demands of the international market and of promoting the even wider opening of Shanghai's gate to the outside world.

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FOREIGN TRADE AND INVESTMENT

SELECTION OF APPLICABLE CONTRACT LAWS DISCUSSED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 12, 5 Dec 85 pp 51-53

[Article by Chen Xiangjian [7115 4382 0256]: "Limitations on the Choice of Law by Parties to Foreign Economic Contracts"]

[Text] On the adherence to international practice, the Chinese Foreign Economic Contract Law (FECL) has laid down two principles in its Article 5, dealing with the choice of law, namely the principle of free choice by the parties and the principle of closest connection. The principle of free choice manifests the "principle of autonomy of the parties" in private international law. Many countries have now legislated restrictions on this freedom of choice.

In adopting the principle of freedom of choice, China is conforming to the new international situation and the needs of China's national economy. The advantages are that after conclusion of a contract, the parties are in a position to interpret their rights and obligations according to a predetermined law of their choice, thereby avoiding the possibility that in case of controversy a troublesome situation could arise due to a conflict between the laws of different countries. It is also beneficial to determine a certain law and its application as standard, because this will save time in case of a lawsuit, and will allow the parties to anticipate the law that will have to be applied to the contract to which they are party. However, in the case of Chinese-foreign economic contracts, the choice-of-law rule is not without its restrictions, but must accept certain restrictions.

The FECL does not contain a comprehensive and explicit set of provisions on the scope of these restrictions, and views in this respect are also still divided in legal circles. In the opinion of this writer, the following are the main special restrictions on the application of the freedom of choice by parties to foreign economic contracts in China:

1. The choice of law by the parties must not contravene the mandatory norm of Article 4 of the FECL, which stipulates: "The conclusion of contracts must observe the law of the PRC and must not be harmful to the public interests of the PRC." This article embodies a distinct characteristic of Chinese legislation; its first part is a mandatory norm on the conclusion of

contracts, and its latter part a provision that guarantees the preservation of public interests.

In the legislation and administration of justice in various modern countries it is a common practice that the application of foreign laws is restricted by mandatory norms. There are two conflicting trends in the legislative methods of the various countries in dealing with the choice of law. One is to have the chosen law basically applied to the entirety of the contract; and the other is to break up the contract and apply different laws to different parts of the contract. Both trends have certain advantages, which is why the legislations in various countries frequently apply both methods. They apply the choice of law in principle to such aspects as the validity, performance and formation of the contracts, but at the same time restrict, to varying extents, the application of the choice of law with regard to certain other aspects in the formation of the contracts. The provisions of the FECL also apply in principle the choice of law to the entirety of the contractual relations, however, the provision on the conclusion of the contract in Article 4, demanding that Chinese law must be observed, restricts to a large degree the application of foreign law, because according to a general theory of private international law, the law of the place of contracting must be applied in case of controversy over the formation and validity of a contract. This rule very much enhances the possibility of applying Chinese law for contracts established in observance of Chinese law.

Chapter 2 of the FECL contains specialized and detailed provisions on the formation of contracts, while the provisions of Article 4 of the "General Provisions" are mandatory norms of principle governing the formation of contracts. This provision of principle implies that every aspect of contract formation detailed in Chapter 2 must in every way conform to Chinese law, otherwise the contract would be invalid, and the application of foreign law is quite out of the question.

Why has China decided on this mandatory norm for the formation of contracts? First, foreign economic and trade activities are conducted under unified leadership, unified policy, and a unified plan. Without a unified regulation on the formation of contracts, it would hardly be possible to carry out unified foreign trade activities. Second, more importantly, the objects subject to the regulation of the FECL are only the economic contract relations between Chinese enterprises or economic organizations and foreign parties, which are different from the ordinary foreign civil law relations in a broad sense that are generally regulated by private international law. As all activities of the parties are fixed in contract form, there are bound to be specific and purposeful provisions on all problems of the contract. It is for this reason that a foreign economic contract is only valid if it was concluded in accordance with Chinese law; this determines that the formation of a contract must observe Chinese law.

2. The foreign law chosen by the parties must not contravene Chinese public order. Public order is a barrier set up by a country against the use of foreign law. Articles 4 and 9 of the FECL are explicit provisions for the preservation of public order. It is noteworthy that public order is a very pliable concept; it can change according to the will of the ruling class.

Misuse in the exclusion of foreign laws can also lead to undesirable consequences. It is therefore necessary to use this restriction carefully and at the same time to adhere to certain standards. Although these are not precisely defined in China's FECL (which is actually impossible), it is still possible to make out in what situations and according to what principles the application of foreign law must be rejected for the reason of preserving public order. For instance, the system of public ownership is China's fundamental economic system. China's Constitution expressly prescribes: "Socialist public property shall be inviolable," "The state prohibits any person to disturb public order by any means whatsoever, to disrupt the state's economic plan, to misappropriate or squander state or collective property, and to endanger public interests." Any provision in a foreign law selected by the parties that would allow using private property to undermine public interests and harm the system of socialist public ownership cannot be applied in China.

3. Chinese law has to be applied to three categories of Chinese contracts with foreign parties, and in these cases no foreign law may be selected by the parties. Article 5, Section 2, of the FECL explicitly prescribes: "The law of the PRC shall govern all contracts for Chinese-foreign joint ventures, for Chinese-foreign cooperative management enterprises, and for joint Chinese-foreign exploration and exploitation of natural resources to be performed within the territory of the PRC." This provision is also a mandatory norm governing the application of law in China. To insist on the exclusive use of the law of the host country in certain categories of contracts with foreign parties is a general international practice. Since the content of the mentioned three categories of contracts between Chinese and foreign parties has a bearing on China's sovereign rights, the provisions of the FECL prescribing the exclusive use of Chinese law are completely rational and well-founded. Parties have no alternative but to obey the rule and no right to tamper with it.

4. The law chosen by the parties must have some connection to the contract. Internationally, there are now two propositions and methods on dealing with this questions. According to the view of certain Western scholars, the parties should have complete freedom to choose the law of whatever country they want to choose; except for purely domestic contracts, the right of choice of the parties must not be restricted. However, this viewpoint is actually only the lingering sound of the absolute contract freedom propounded in the times of liberal capitalism. It does not conform anymore to the reality in the Western countries with their increasing socioeconomic interferences and is therefore rejected by the legislation and judicial administration of all countries. At present, many countries, such as the United States, Great Britain, and Poland, try to prevent parties from using the choice-of-law freedom from applying a quasi-applicable law in order to avoid the application of the law that should be applied. To that effect they all require that the law the parties choose must have a certain connection with the contract, or that the choice of the law must be "in good faith," "legal," or "have a rational basis." If there is absolutely no connection between the chosen law and the contract, it may be regarded as evidence that the parties attempt an evasion, and such must be disallowed.

Legal circles in China have not formed a unified opinion on the question of whether the law chosen by the parties must have a connection with the contract, and there is also no answer to be found in the FECL. In the opinion of this writer, considering the national conditions of China and the present conditions of foreign trade intercourse, China should also in this respect impose restrictions on the choice of law by the parties. First of all, one of the reasons for allowing the parties the choice of law to be applied in case of a controversy is the consideration that the parties be enabled to predict the way a dispute will be resolved. Chinese parties are not as familiar with foreign laws as people in Yugoslavia or other such countries, and therefore would have difficulties in making choices. Because of the disturbing influence of jurisprudential nihilism, Chinese comparative studies of foreign laws has not been carried out in depth, and there is insufficient understanding of the laws of third-party countries, so that there is no sense at all in expecting the Chinese parties to gain any predictability. Second, in the new era of economic growth, it is extremely desirable to resolve disputes between the parties to a contract as quickly as possible, also in the interest of our development of foreign economic exchanges and the acceleration of our four modernization projects. If the parties arbitrarily choose the law of a third country or one that has no connection or relations at all with the contract, it would be very bothersome to establish its validity, and not helpful at all toward bringing about the resolution of the dispute. Third, the choice of an unrelated national law can possibly have the effect of having a contract, which originally was very closely linked with China, eliminated due to the application of the law of a third country, which would be detrimental to the preservation of the interests of the Chinese party. In view of the above reasons, it is indeed necessary for China to impose the mentioned limitations.

How, then, are the parties to choose the law of a country that is connected with the contract? Generally speaking, this may be determined according to the following factors: the place of contracting, the place of performance, the place where the loss in question has occurred, the place where the dispute is litigated, the place of residence or business of the debtor, and the character and objective of the contract.

The earlier-mentioned four points are the principal special limitations of the choice of law by the parties according to the FECL.

In addition, some writers have expressed the idea that the choice of law by the parties should also be subject to the following restriction: The foreign law that is to be applied must be explicitly designated in Chinese law or in an international treaty concluded or participated in by China. As to the former condition, namely that a foreign national law may only be used if explicitly designated in Chinese law, this condition has already been eliminated from the provisions of the FECL. Article 5, Section 3, of the FECL prescribes: "International practice shall apply in case no relevant provision is contained in the law of the PRC." That means, the law chosen by the parties, even if no provisions are made for it in the Chinese law, would not be necessarily precluded; its application would be determined according to international practice.



As to the latter, namely restrictions explicitly prescribed in international treaties concluded or joined in by China. This restriction is in actual fact a restriction by the condition of reciprocity. On the one hand, restrictions explicitly contained in an international treaty concluded or joined in by China must of course be applied. On the other hand, if China has not concluded a treaty with the country of the other party, and also not joined a relevant international convention, should no laws of such countries ever be applied? A procedure of this kind would not be feasible in the new situation of modern international commercial intercourse. In actual fact, reciprocity is generally not the precondition for the application of a foreign law. The lack of reciprocity does not necessarily preclude the application of foreign law. This is clearly stated in Article 6 of the American "Restatement of the Law of Conflict of Law," also recognized by jurisprudential circles in the Soviet Union and in the East European socialist countries. However, the legislative and judicial organs, when dealing with foreigners or residents in foreign countries, occasionally make reciprocity a condition for the application of the foreign law, and for the purpose of ensuring judicial succor, the recognition and enforcement of foreign judgements or decisions is normally dependent on reciprocity. The provision in Article 204 of China's civil procedure law regarding the recognition and enforcement of foreign judgements also contains the condition of mutual reciprocity. However, to make reciprocity a condition for the application of foreign law in all cases of foreign economic relations would not be appropriate for the development of international intercourse. Article 6 of the FECL prescribes: "When an international treaty that related to a contract and which the PRC has concluded or jointed in has provisions that differ from the law of the PRC, the provisions of the said international treaty shall apply, however, with the exception of clauses to which the PRC has declareed reservations." How, then, to use the rule in case China has not concluded or joined treaties? It is my opinion that the provision of Article 5, Section 3, namely that "international practice may apply," could also be applied in these cases.

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## FOREIGN TRADE AND INVESTMENT

### GUANGZHOU'S FOREIGN CAPITAL USE OVER LAST 6 YEARS

Beijing LIAOWANG [OUTLOOK] in Chinese No 52, 30 Dec 85 pp 29-30

[Report on an Interview with Zhu Senlin [2612 2773 2651], deputy mayor of Guangzhou Municipality, by Tang Wei [0781 3555]; date and place of interview not given; first 8 paragraphs source supplied introduction]

[Text] I. Numbers are very convincing. In the statistical tables dealing with the use of foreign capital in Guangzhou during the last 6 years, this reporter has seen rows and rows of eye-opening figures.

Out of the \$1.84 billion contracted for in foreign investment contracts, already more than \$970 million have actually been invested and taken in use.

A total of 217 joint venture, cooperative management and compensation trade projects have already been built up or gone into production. Cases of technological transformations by means of imported foreign technologies and equipment number 312. The total output value thus created amounted to 2.4 billion yuan, with a tax revenue of 370 million yuan, and the development of 4,200 new products.

Industrial products exported by the foreign trade itself amounted to more than \$1.64 billion, and the total value of exports was around 13 percent of the city's total industrial output value. More than 50 export commodities yielded foreign exchange of more than \$1 million each. The total amount of industrial products exported during the period from January to September this year was \$236 million, an increase of 20 percent over the corresponding period last year.

Twenty-six tourist facilities were built with the use of foreign capital, 20 of these with a total investment of over \$26 million; these projects had all their obligations repaid by July last year. Old enterprises that were transformed by means of joint ventures yielded over \$67 million of foreign exchange for the state and paid a total of 11.9 million yuan in industrial and commercial tax and customs duties.

Guangzhou's use of foreign capital has had spectacular results. People are

extremely concerned whether foreign capital was really put to the best use. It was with this question in mind that this reporter interviewed Guangzhou's Deputy Mayor Zhu Senlin.

Zhu Senlin, 54 years of age, had studied social sciences at Qinghua University and has worked in Guangzhou for over 30 years. He had been, successively, deputy secretary of the Guangzhou municipal party committee, chairman of the policy study office of the party committee, chairman of the council of Guangzhou's center for economic and social development research, and in August of this year was appointed deputy mayor.

II. Guangzhou was the earliest among the 14 coastal cities that opened up to the outside world. Actually, as early as 1981, when Shenzhen, Zhuhai, and Shantou were designated special economic zones [SEZs], Guangzhou had been a connective hub for these three SEZs. Although Guangzhou was not yet a SEZ at that time, it exercised the competencies of the special policies and flexible measures and was called a "semi-SEZ." In that sense we can say that Guangzhou enjoyed exceptional advantages with respect to the use of foreign capital.

Zhu Senlin said: Having the favorable preconditions for the attraction of foreign capital does not at all mean to be able to make effective use of foreign capital. The most important point in assessing whether an area or a department follows the correct guiding ideology in its use of foreign capital is to examine whether it is able to use the hard-earned foreign capital on economic construction, on efforts to improve conditions of production, on enhancing the competitiveness of its products, on opening up international markets, and on increasing foreign exchange revenue for the state. Practice has clearly shown that there exist two guiding ideologies with regard to the use of foreign exchange: One lacks a comprehensive plan, engages in irrational development, or is even intent on quick successes and instant profits, and schemes on "short cuts" to get rich by foul means. The other starts out from the realities and from the requirements of the overall situation; it uses foreign capital to import advanced technologies and equipment to promote the country's technological progress, to develop productive forces, and to accelerate the four modernizations.

In Zhu Senlin's opinion, the principal topic in the effective use of foreign capital is the effective selection of the investment targets. All imports must suit our needs and be for our use.

In the last 6 years, Guangzhou has signed over 16,600 contracts for all kinds of economic and technological projects, of which over 200 were imports of production lines at the international level of the early 1980's and comprised 17,000 installations, enabling basically all important installations of the entire city's industry to undergo transformation.

Prior to the initiation of the policy of opening up to the outside, Guangzhou City had 4,007 large and small enterprises working with outdated equipment, at low productive capacity and showing poor economic results. To achieve a radical change of the state of industrial backwardness, Guangzhou concentrated in its use of foreign capital on the technological transformation of enterprises. In a few years time, Guangzhou imported successively several

items of advanced equipment and technologies, developed a series of new products, and raised the standards of a series of products to the international level of the late 1970's and early 1980's. Some of its electronic products, electrical household appliances, some foodstuffs, such as soft-packaged drinks and instant noodles, also some knitwear, fabrics and plastic products, filled a gap that existed in China and in Guangdong Province. In addition, Guangzhou, created many "hot-selling" goods and superior products. The importation of advanced equipment enabled the Municipal Cotton Mill No 1, an old enterprise, to produce now such superior items as indigo-dyed durable woollen cloth, ring-spun woollen yarn, and gassed yarn, products which have been able to break into the international markets with exports of large lots. The export value of products of Guangzhou's light and textile industries accounts for about 70 percent of the entire city's total export value.

Zhu Senlin spoke of the Guangzhou electric appliance industry, that it was able to manufacture in the past only such ordinary products as bakelite electric appliances, electric soldering irons, electric flatirons and electric fans. Through the technological transformation of the entire industry by means of imported foreign capital during the last few years, the industry can now mass produce a large variety of models and standards of such high-grade, sophisticated and top-notch products as electric cookers, electric refrigerators, electric water heaters, double-tub washing machines, and audio components, making Guangzhou one of the major places in China for the production of electric household appliances. The Guangzhou Electric Refrigerator Factory imported two production lines, constituting a capacity of 200,000 electric refrigerators per year and taking first place in the export volume of refrigerators.

In the course of its importations, Guangzhou is anxious that foreign capital is also used to renovate and supplement service installations. For instance, the respective municipal departments cooperated in a variety of forms with Hong Kong firms to transform and newly build some high-class restaurants and guest houses. Chinese and foreign visitors to Guangzhou, numbering more than a million every year, need no more fear difficulties in finding accommodation. Gone is the intolerable situation that people had to line up at restaurants to wait for empty seats.

III. What are principles that must be upheld in the use of foreign capital? Zhu Senlin explained to this reporter the methods used at Guangzhou, which may be summarized as follows:

First, maintaining a sequence from small to large, progressing in an orderly way and developing step by step in depth. In the early days after opening up to the outside, Guangzhou started out by processing materials imported by foreign firms, manufacturing according to imported models, assembling imported components and engaging in compensation trade. In the assortments of products, development should be step by step in a planned way from a single type of product to a diversity of products and toward processing for exports. This procedure will achieve three things in one stroke: earning foreign exchange, training of personnel and accumulating experiences. On this basis, going one step further, the importation of equipment, technologies and

managerial expertise should follow in a development of more high-ranking joint venture and cooperative management projects. Through several years of practice, Guangzhou's imported projects gradually developed from labor-intensive to technology-intensive industries. By the first half of this year, the proportion of technology-intensive industries among projects using foreign capital increased from 11 percent in 1983 to the present 41 percent.

Second, insisting that reform be a means of opening up to the outside. In recent years the city carried out a series of reform measures to adapt to the needs of the situation created by opening up to the outside world. At the beginning of this year, the municipal government decided to concentrate the location of all departments having dealings with foreign economic relations in offices along two sides of a long corridor of the Dongfang Hotel, thus forming one street, which was called the "foreign economic relations lane." All business and counseling having to do with economic and technical cooperation, trade talks, agency arrangements, as well as industrial and commercial registrations, can all be transacted here. The response of many foreign businessmen was: Being able to settle all business affairs under one roof, as in Guangzhou, is a highly praiseworthy method and good show of efficiency.

Third, strengthening administrative controls. Controlling and opening up are a dialectic unity. The purpose of control is to enhance opening up, to enable opening up one step further. During the last few years, the control of overall balances in the use of foreign exchange has been tightened. On the one hand, rights of examination and approval have been relegated down to lower authority, but then again, plan guidance was tightened, while good work was done in counseling, coordinating and providing information, so that most investment projects conformed to the demands of the developing national economy. Recently, the municipality investigated 451 joint venture, cooperative management and compensation trade projects and found that 295 projects, i.e. 65 percent, were projects of a productive nature in such industries as communications, machine building, electronics, chemical engineering, post and telecommunications, building materials, as well as foodstuffs, light and textile industries, and animal husbandry, i.e. industries which the state encourages to develop.

Fourth, there are things to import and things to resist. In the course of opening up to the outside world, we must maintain a high degree of vigilance against capitalist decadent ideology and life style, which we must resolutely resist. We must neither "give up eating for fear of choking" nor must we act without discernment as "hungry men who are not choosy about their food." We must uphold the principle of "rejecting polluting filth, but must not oppose everything foreign." As we open wide the gate to the outside world, we must simultaneously launch a vigorous education in ideals, discipline, professional and social ethics, we must rectify unhealthy practices, deal a blow to any criminal economic activity and guarantee the healthy development of our access and accessibility to the outside world.

Zhu Senlin finally said: Although Guangzhou has achieved certain results during the last few years with the use of foreign capital and accumulated certain experiences, there are still some questions that must be resolved step by step. We are currently in the process of shifting the focus of our use of

foreign capital progressively to industrial and technological projects, to comparatively large-scale projects and to key projects with comparatively high starting points, maintaining the simultaneous development of large, medium and small-scale projects. In the upgrading and updating of our traditional products, in the development of new products and in opening up international markets, we plan, first of all, to take one step at a time, explore the road, have Guangzhou assert its due role, and make a larger contribution toward the great undertaking of the four modernizations.

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## FOREIGN TRADE AND INVESTMENT

### FUJIAN GEARING UP FOR TOURISM

Fuzhou FUJIAN RIBAO in Chinese 20 Jan 86 p 1

[Article by Ke Xing 90344 5281] and Wei Ping [4850 1627]: "A Springtime of Tourism Follows Fujian's Opening Up to the Outside World"]

[Text] Fujian's tourism has rapidly developed. According to still incomplete statistics, 1.11 million tourists visited Fujian during the period of the Sixth 5-Year Plan, creating 240 million yuan RMB in foreign exchange certificates. Among these, the number of tourists handled last year was over 340,000, which was more than 5 times what it was in 1980, with foreign exchange revenues from tourism amounting to 100 million yuan, an increase of 57.2 percent over 1984.

Stimulated by the opening up to the outside world, some major scenic areas in Fujian Province such as Wuyishan and Xiamen have by now been built up to a considerable initial scale, and a series of new scenic areas in Fuzhou, Quanzhou, Zhangzhou and other places along the coast and railway lines are now also being developed and built up. The entire province now has more than 5,000 beds to accommodate foreign visitors, which is about 11 times the number in 1980. Facilities in such places as Fuzhou's Donghu Hotel and Foreign Trade Center Restaurant, Xiamen's Lujiang Hotel and Yuehua Restaurant, and the Manting Lodge and Wuyishan Inn in the Wuyishan area are all up to modern standards.

At many places throughout the province, a series of new medium and lower-class hotels have been built. The province has now almost 1,000 motor vehicles for tourist purposes, a 5-fold increase compared with 1980. There has also been a rapid increase in tourist activities. The provincial department for tourism has established business relations with scores of foreign countries and has started up such diverse and novel tourist activities as self-driven car and trailer rides for foreigners throughout Fujian Province, Lanting College in Wuyishan, excursions to satisfy religious, scholarly, cultural and folklore, economic investigation, sports, or international exhibition interests. At the two ports of Fuzhou and Xiamen there are also 16 foreign-style excursion boats.

As we understand, the tourism system now has a complement of over 5,000, which is more than 3 times the 1980 number. Fujian Province has 1 tourism college and 12 senior middle school courses in tourism, which will supply the tourism system with almost 400 specially trained personnel. All hotels catering to foreigners are running various types of service personnel training courses, which will enhance the educational level and service standards of service personnel. Almost 300 persons throughout the province have been evaluated and confirmed as cooks and chefs from first to fifth grade.

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## FOREIGN TRADE AND INVESTMENT

### BRIEFS

HEBEI FOREIGN TRADE EARNINGS--In 1985, Hebei Province earned \$1.295 billion in foreign exchange through foreign trade and exports, an increase of 70.34 percent over the previous year. [Excerpt] [Shijiazhuang HEBEI RIBAO in Chinese 11 Feb 86 p 1 SK] /9599

GUANGDONG FOREIGN JOINT VENTURES--Guangzhou, 1 Mar (XINHUA)--Foreign joint ventures have developed rapidly in Guangdong Province in recent years. By the end of 1985, there were 3,596 enterprises of this kind, accounting for about 60 percent of the total number of foreign joint ventures in China. Foreign-investment enterprises developed especially fast in Guangdong last year. According to statistics, 1,753 such enterprises were approved to be established last year, of which 495 were foreign joint ventures, 1,217 were foreign joint cooperative enterprises, and 41 were foreign-owned enterprises. These enterprises brought an increase in registered capital of more than 3.8 billion yuan, of which 63 percent was invested by foreign companies. [Summary] [Beijing XINHUA Domestic Service in Chinese 1138 GMT 1 Mar 86 OW] /9599

LIAONING EXPORT ACHIEVEMENTS--Liaoning Province realized \$5.4 billion in its total export volume in 1985, and its total purchase volume of export commodities reached \$64.64 billion, topping highs in these areas. [Excerpt] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 9 Mar 86 SK] /9599

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## SPECIAL ECONOMIC ZONES

### TRANSFORMATION OF SHENZHEN'S INDUSTRIAL STRUCTURE

Guangzhou NANFANG JINGJI [SOUTH CHINA'S ECONOMY] in Chinese No 5, Oct 85  
pp 14-19

[Article by Yang Zhihe [2799 1807 0735]: "Investigating the Industrial Structural Progression of the Shenzhen Special Economic Zone"]

[Text] Industrial structure refers in general to the composition and structure of the various sectors of the national economy and the various aspects of social reproduction. Seen from the viewpoint of developmental economics, industrial structure refers to the aggregate of industrial sectors with one industry in dominant position and to the composition and structure as between the various trades. It is a systematic industrial structure. It usually comprises two processes of progression: One is a process of progression within the industrial structural system, such as the development of the various sectors and trades of the system itself, leading to transformations in the original proportions and relations. The other is the progression of an industrial structural system with a certain industry in a dominant position to another industrial structural system with another industry in dominant position. Both these two processes are mutually complementary and mutually conditioning. The progression within the system is bound to lead to the transition of the industrial structure itself to another industrial structural system. The present article intends to examine this progression of industrial structural systems.

#### 1. Some Concepts of the Setup of Industrial Structures

In 1982 the Shenzhen Special Economic Zone [SEZ] drew up an "Outline for the Social and Economic Development of the Shenzhen SEZ," and on the basis of opinions invited from specialists in various fields, put forward as the strategic goal for the development of the Shenzhen SEZ: to create a comprehensive economic zone with industry as its key pursuit, but to engage concurrently in commerce, agriculture, housing, tourism and scientific research. However, no in-depth analysis was done on what strategic ways and means should be adopted and through what kind of an industrial structural progression the desired goal would be reached.

In recent years, as a consequence of changes in the political and economic situation, particularly also due to the emergence of the new technological

revolution, some new views have been voiced regarding the strategy and initiatory policy for the development of the Shenzhen SEZ. In these new views they reveal the following concepts for the establishment of an industrial structure for Shenzhen:

(1) The doctrine of an "international trade center." With an eye on the advantages of the geographical location and the successful experiences of Hong Kong, they propose to draw a lesson from the successful economic development of Hong Kong, take advantage of the geographical proximity to Hong Kong and turn Shenzhen into an "international trade center," make commerce the priority sector and establish an industrial structural system with commerce as the key objective.

(2) The doctrine of a "base for the newly emerging industries." This holds that Shenzhen should energetically import new technologies and newly emerging industries, to specially develop such items of new technology as microelectronics, integrated circuits, computer software, and to develop the corresponding industrial sectors, that it should at the same time, centered around the development of the Nanhai oilfield, particularly import items and new technologies and equipment in the five fields of petrochemicals, electronics, mechanical and electrical machinery, warehousing and storage facilities, and transportation equipment. They put forward the concept of the concurrent adoption of two industrial structural systems, namely a technology-intensive and a capital-intensive system.

(3) The doctrine of "market strategy." It holds that the development of the Shenzhen SEC must start out from the realities of the situation, direct its attention to the actual demands of the target markets and keep aware of the SEZ's capabilities, and make rational arrangements for the SEZ's industrial structure, commodity structure and technological structure. Its industrial structure may be technology-intensive, possibly capital-intensive or also labor intensive, depending mainly on the market objective and the actual conditions of the SEZ. As the market conditions change, corresponding structural changes may occur.

The concepts about the industrial structure expressed in the above-stated developmental strategies are approaching their investigations from different sides, and seen from a certain angle, each has its desirable points. However, seen from an overall viewpoint, they are all fragmentary. To grasp the industrial structural progression in its entirety, in order to determine an appropriate policy and adopt appropriate measures, it is necessary to institute our investigations from the viewpoint of the overall system.

## 2. The Industrial Structural Progression on the Assumption of a Closed Economy

Assuming that the Shenzhen SEZ were a closed economic system, it would have no domestic or foreign personnel, financial, material, supply, production and marketing relations. All needed key elements would have to be satisfied from out of its own capabilities. The Shenzhen SEZ itself would then have to provide the necessary conditions and machinery needed for its own existence and development. This would at the least require three types of subsidiary

systems: 1. A basic sector industrial production system; 2. A processing sector industrial system; 3. A service sector industrial system. These systems would comprise the following sectors and trades: agriculture as the foundation on which the national economy develops; a basic structural sector which would provide the material conditions for social and economic development; the machinery, equipment and materials industries and various consumer goods industries to manufacture products for production and for the people's livelihood; public undertakings such as planning and budgeting, medical and public health, livelihood and housing, and also service sectors to take care of commodity storage and supplies, travel and tourism, education and art and environmental protection.

To ensure the development of all these sectors and trades in the Shenzhen SEZ, there must be a rational allocation of funds, technologies, manpower and material resources to all these sectors and trades, that is, the limited developmental elements must be allotted to the various industrial sectors and trades in the SEZ in accordance with the special characteristics of orderliness, coordinating nature of the progression, cause-and-effect character in the relations, mutual similarity and exchangeability possessed by the industrial structural progression.

However, the establishment of the industrial structure does not depend on subjective will, but is determined by objective economic conditions. Whether it would be possible for the Shenzhen SEZ, under the conditions of a closed economy, to set up an all-encompassing industrial structural system, and according to what order and proportions it could set it up, has to depend on the objective situation of the Shenzhen SEZ under the conditions of a closed economy.

A general analysis of the basic conditions of productive forces, of the demand structure and distribution structure in the Shenzhen SEZ can only arrive at the following conclusion: Under the conditions of a closed economy, the Shenzhen SEZ would still lack the objective preconditions for the establishment of a perfect industrial structural system. Not being able to set up a perfect industrial structural system would mean that the defective industrial structure cannot have an orderly, well coordinated, mutually cause-and-effect related progression, and that its development would meet with unsurmountable obstacles. Even if it were able in the initial stage of the SEZ to establish a somewhat imperfect industrial structural system and achieve a certain degree of development, this would be followed by the emergence of all kinds of restrictive conditions, and followed by a dislocation of the self-regulating machinery within the industrial structural system itself, and finally lead to decline and ruin. Since the Shenzhen SEZ would not be able to rely on its own strength to gain economic growth and social prosperity, the development of the SEZ must be accompanied by an open industrial structural system; it must move from a closed economy to an open economy.

### 3. The Industrial Structural Progression Under the Conditions of an Open Economy

Examining the Shenzhen SEZ's economy within the framework of an open economic system, the industrial structural setup and its transformation would then not

be limited to the objective conditions of the SEZ itself, and we would be able to expand our considerations of the decisive objective factors to a very broad field.

The influences created by the domestic and foreign factors on the industrial structural progression of the Shenzhen SEZ are mainly brought about by certain complementing effects on the SEZ: The lack of natural resources and qualified personnel in the Shenzhen SEZ could be satisfied by supplies from domestic sources; the lack of capital and technologies could be solved by imports from abroad; the demand and the markets that Shenzhen is lacking could be realized by expanding domestic and foreign markets. However, the question whether these complementing effects can indeed be realized has to depend on many complex factors. There are the restrictive factors of external conditions and also limiting factors presented by conditions within the SEZ itself. For instance, whether foreign capital and technologies can be brought to supplement shortages in the SEZ will depend on how much surplus capital is available in the various countries of the world for investments in foreign countries, also on whether the various countries have encouraging or restrictive policies regarding exports of capital and technologies to the SEZ. It will, furthermore, depend on the extent to which the SEZ is attractive for foreign capital and technologies. Then again, the extent to which the foreign markets and the domestic markets will be able to absorb products and labor services of the SEZ will depend on the extent to which the foreign and domestic markets will be open to products from the SEZ, and also on the competitiveness of the products manufactured in the SEZ.

Assuming that there are no restrictions on the importation of foreign capital and technologies into the Shenzhen SEZ, an analysis of the SEZ would then have to question the SEZ's attractiveness. An investigation of the attractiveness can be approached from the angle of the investment environment, the production costs and the domestic support for the SEZ.

**The Investment Environment.** Even though Shenzhen's administrative efficiency has been markedly improved in the reform of the economic system, the Shenzhen SEZ has in many other respects no particular superiorities to show. As to the infrastructure, there is no deep-water harbor, there is no international airport, the place lacks modern railway and expressway connections, there is, moreover, a shortage of energy sources, and supplies are insufficient. Although the free inward and outward movement of capital is explicitly stated in law, such movements frequently meet restrictions on the actual capital transfer side. As regards noneconomic factors, such as policies, laws and decrees, there are indeed some special enactments, which clearly declare the long-term constancy of special and general policies, but the concerns of the investors have not yet been radically dispelled.

**Production Costs.** The labor cost at Shenzhen is relatively low compared with costs in developed countries, also low compared to certain foreign processing areas and to Hong Kong, but this low labor cost is combined in Shenzhen with a relatively low labor quality, which consequently results in a comparatively low wage efficiency. The advantage of a low labor cost is therefore an enticement only where it can be combined with labor-intensive processing and assembly work.

Looking at the supply of raw and semifinished materials, we find that domestic raw and semifinished materials are often in quality and price inferior to foreign supplies, and also frequently involved in exchange rate problems. That is why the raw and semifinished materials needed in the SEZ are mostly supplied from abroad. It shows that the Shenzhen SEZ will hardly be able to do processing at much cheaper cost prices than foreign processing zones or Hong Kong.

Domestic Support. This, in theory, should be all-embracing, but in actual fact there are here also two considerations as to support for the SEZ: One is that although the SEZ is an area of special policies and measures, it has a mixture of two economic systems, a socialist and a capitalist, and it follows a unique pattern of capitalism developing socialism. The enterprises with foreign participation involved here still exploit to a certain extent the workers of the SEZ. For this reason the hinterland can only adopt a policy toward the SEZ that is attuned to the situation: on the one hand to give energetic and widest support, but on the other hand to institute necessary restrictions. The second consideration is that China's national industry is still at a rather backward stage, and its development must be supported by certain protective measures. A policy of effective controls must therefore be imposed with regard to the marketing of products of the SEZ in the hinterland. Favorable treatment in the market must only be accorded to advanced technology products, and the shipment of common products to the hinterland must be restricted.

In summary, it is evident that under current conditions the Shenzhen SEZ is of little attractiveness for foreign capital. If we take profits as criterion in assessing attractiveness, we see that the attractiveness of the Shenzhen SEZ consists merely in being able to maintain the average international profit level of foreign trade and will hardly be able to ensure an abundance of superprofits.

Related to the above-stated problems: Since the Shenzhen SEZ cannot attract huge investments and advanced technologies in sufficient quantity, it would also be extremely difficult to introduce large quantities of products, manufactured at the SEZ's originally available technological level and with the originally available productive forces, into the international market with its fierce competition. This situation is to some extent reflected in the marketing trend of products from the Shenzhen SEZ and in the profit and loss conditions of Chinese-foreign enterprises in recent years (see following table).

1983 Profits and Losses of Chinese-Foreign Enterprises  
(Unit: 10,000 yuan RMB)

Industries & Trade	No of Firms	Amount of Profits	Average Rate of Profit (%)
Real Estate	8	2,756	79.2
Tourism & Recreation	8	440	20.9
Commun. & Transport	10	290	16.8
Industrial Enterprises	35	1,027	14.1
Commerce, Foodstuff & Service Industries	42	0.2273	10.7

Industries & Trade	Firms With Profits	Firms With Losses	Losing Firms to Totals (%)
Real Estate	8		
Tourism & Recreation	7	1	13
Commun. & Transport	8	2	20
Industrial Enterprises	27	8	22.8
Commerce, Foodstuff & Service Industries	35	7	16.7

Looking at the profit and loss situation (especially in the industrial sector) and also from the market strategy angle, we see that there cannot be any rapid growth of supply and demand in the Shenzhen SEZ. Under the condition of the only possible situation of low supply and low demand, and without any change in the current industrial structural pattern of low level technology and primarily processing and assembling operations, the development of the SEZ cannot possibly be one of rapid growth and efficiency.

In what direction should the industrial structure of the Shenzhen SEZ then be moving? Will it be able to develop into a primarily technology-intensive and knowledge-intensive industrial structural system? The problems met with currently in the importation of foreign capital have to some extent already given a negative answer. Setting up a new industrial structure in the Shenzhen SEZ must, in fact cannot but, seek a breakthrough point in a contradictory situation, which is: Having the huge market in the hinterland as our backup potential and facing good prospects in the exploitation of the Nanhai oilfield, we still must evoke a strong investment interest among foreign businessmen in the Shenzhen SEZ, which by itself so far still lacks sufficient attractiveness.

After several years of exploration, there are good prospects for the development of the Nanhai oilfield, but commercial exploitation is still quite some time away, so that the establishment of an industrial structural system centered on the Nanhai oilfield may be left to somewhat later consideration. However, the domestic market is present and real. Foreign businessmen go after anything that offers an opportunity to approach the domestic market "like a flock of ducks." It is therefore extremely necessary and appropriate that we regard the market factor as a breakthrough point that must be

considered for the possible establishment of a new industrial structure. However, today, when opening up to the outside world is not limited to the Shenzhen SEZ, when 14 other coastal cities have been opened up, the huge attraction created by the domestic market has been expanded from one point to a large area, and the Shenzhen SEZ has lost its advantage of a monopolistic backing in the hinterland. Following the formation of a belt of opened-up coastal places, the challenge which the Shenzhen SEZ faces has increased from the one from abroad to the current two, namely one from abroad and one from the domestic side. Toward the outside, there is the competition with Hong Kong in closest proximity, and domestically there is the competition with the other 14 opened-up coastal cities. To come out with a clear superiority is not an easy matter. Shenzhen must therefore employ measures that are geared to the actual circumstances in its utilization of the domestic market, must integrate the use of the domestic market with the SEZ's own conditions, and progressively establish an industrial structural system of unique Shenzhen characteristics. Under current conditions, it is tourism and commerce that are the two sectors and trades that can integrate the use of foreign and domestic markets with the promotion of a transformation in the industrial structure of the Shenzhen SEZ.

#### 4. The Position and Role of Tourism and Commerce in the Industrial Structural Progression

Selecting tourism and commerce for a leading position in the industrial structural progression of the Shenzhen SEZ is based on the following considerations: The lack of a good investment environment and sufficient amounts of investments restricts the establishment and development of newly emerging industrial sectors, especially of technology- and knowledge-intensive industrial sectors. It would therefore also be equally difficult to set up an industrial structural system with these sectors in a leading position. An entire industrial structure that is set up relying mainly on processing and assembly industries cannot possibly achieve a comparatively rapid economic growth, because of its operation at a low level, and the limits of its own competitiveness, and its restrictions in the foreign and domestic markets. The development of tourism and commerce does not require specially advanced technologies and equipment or the expenditure of huge amounts of investments, nor does it require a very high level of science and technology, high quality in its manpower nor specially advanced managerial methods and means. It would only require the integration of the favorable geographical location with the abundant tourist resources, and the development of the necessary communications and transport facilities, to attract foreign tourists, especially the Hong Kong tourists, to travel to the interior, and to induce the consumers of the hinterland to come to the Shenzhen SEZ to increase consumption in the SEZ, to enable the establishment of a tourism that will include a tourism paraphernalia industrial system, a tourist accommodation industrial system, and a tourist service industrial system, and to establish a commercial structural system. Allowing these two systems, tourism and commerce, to play the leading role in the industrial structural progression will enable the accumulation of much capital, especially foreign exchange, for the development of the Shenzhen SEZ, and will provide the material basis for the transition to a new industrial structure.



There are good preconditions for the development of a tourist industry in Shenzhen; its beautiful natural environment and unique geographical location provide broad possibilities for the development of tourism in Shenzhen. In recent years, Shenzhen's tourism has grown up from nothing, points of tourist attraction and tourist facilities have been continuously increased, and the growing number of tourists testify to Shenzhen's superiority.

Of course, the development of tourism and commerce in Shenzhen are not without their limits. Developed to a certain dimension with no further possibility of creating a higher profitability, or to gain more profits, the funds accumulated by these two sectors would have to be invested in new industrial sectors and absorbed by sectors of higher technological levels and higher profitability, effecting in that way a transition in the industrial structure.

#### 5. Transition from the Industrial Structure of Tourism and Commerce to One of Newly emerging Industries

When the tourist industry and commerce shall have been developed to a certain limit, it will become impossible to obtain a higher profit rate, and capital accumulations will also have reached a certain scope. The infrastructure of the entire economic development will have been spurred on to greater perfection and greater efficiency by the tourist industry and by commerce. Good prospects in the exploitation of the Nanhai oilfield will exercise growing attraction with each passing day, so that the funds accumulated in the Shenzhen SEZ and the investments from abroad could possibly be diverted toward investments in new oil-related industries, which could then progressively replace tourism and commerce in their leading position in the industrial structure and form a new industrial structural system with the petrochemical industry in dominant position.

The exploratory drilling in the Nanhai oilfield has up to now made comparatively satisfactory progress, and it is hoped that when the industrial structure of tourism and commerce will progressively decline, a new situation will emerge, led by a new industrial structure, and leading toward a smooth continuation in the shift of the industrial structure. The possible factors in this development are: With the further intensive exploration of the Nanhai oilfield, Shenzhen's tourism and commerce will enter a stage of further development, and as the future prospects in the Nanhai explorations brighten, Shenzhen's tourism and commerce will reach their zenith and show greatest profitability. As profits will have reached their greatest height, further investments in these two sectors may show progressively lower interest rates. At that time, new investments and reinvestments of interests may be diverted for investment in Nanhai oil-related items that will show vitality, and will in this way form an industrial structural system with the petrochemical industry in leading position.

Once the industrial structure is transformed from one with tourism and commerce in the leading position to one with the petrochemical industry in the leading position, the following will be the situation that will evolve in Shenzhen's new industrial structural system: The petrochemical industry will cause industries and trades to emerge that will supply it with raw and semifinished materials, equipment and services, forming a subsidiary system of

logistics industries in the rear. It will promote other industries and trades, for which the petrochemical industry will be supply sector, to form a subsidiary system of industries up in front. Of the former type, there will be mechanical and electrical machinery, transportation, service, and electronics industries. Of the latter type, there will be chemical fertilizer, automobile, warehousing and storage industries, all mutually linked, mutually conditioning, and mutually in a cause-and-effect relationship. This industrial linkage will, furthermore, not be limited to the SEZ itself, but will in the future extend to a broader field, including Hong Kong, Guangzhou and other places.

## 6. General Trend of the Industrial Structural Progression

The industrial structural progression is a process that is led on by the dominant sector, spurs on developments in other sectors and unceasingly progresses. Its trend is bound to be a transition from a low-level to a high-level industrial structural system. As to the Shenzhen SEZ, we may simply divide the trend of its industrial structural progression as follows:

(1) The stage of a combined agricultural industry and plantation industry without industrial base. This was the stage prior to the establishment of the SEZ. Its characteristics were: an extremely weak economic foundation, a narrow market, no diversification of products, lack of general conditions and motivation for economic development.

(2) The stage of an industrial structure with real estate as the main industry, but concurrently engaged in small-scale industries, agriculture, tourism, commerce and transportation in a loosely scattered pattern. The Shenzhen SEZ was at this stage in its initial period. Its characteristics are: a fairly prosperous state of the real estate industry, yielding abundant profits and providing most income for the SEZ, but correspondingly backward in all other branches of industry. However, the entire structure itself lacked an organic integration, its industries being without the machinery for a coordinated development. Its economic development is in a state of unstable, unbalanced growth. with some sectors most outstanding and certain other sectors very backward.

(3) The stage of a mixed industrial structure, in which tourism and commerce are in the foremost position, but with the concurrent operation of processing and assembly work, agriculture, transportation and the real estate industry. The Shenzhen SEZ's current stage can be said to belong to this stage. Its characteristics are: the tourist industry is a subsidiary in this stage of a fairly complete system of all the various elements, which are linked among each other by a very distinctly developed correlation and coordination, but the tourist industry and commerce lacking an organic linkage with the other industries, and the technological level of all industries staying at a comparatively low level. Although the economic strength has greatly increased, this structure still lacks the conditions and machinery for an overall accelerated growth.

(4) The stage of an industrial structure in which tourism and commerce are progressively developing to maturity and constitute the main industrial

sector. Its characteristics are: tourism and commerce progress in great strides, taking an ever increasing share in the gross output value of industry and agriculture, gradually getting to form the dominant sector, also having the machinery to spur on developments in the other sectors and trades, furthermore capable of linking up with the developments in the other sectors. There is mutual coordination, with a fairly stable growth rate in all sectors, and a comparatively high level of technology and high quality of manpower. There is a constant increase in economic strength, a rapid rise in the rate of accumulation and a continuous expansion of markets.

(5) The stage of a mature pattern of an industrial structure in which the petrochemical industry is dominant. This is the direction of the industrial structural progression in the Shenzhen SEZ, a stage in which a turning point of a breakthrough nature will occur in the economy of the SEZ. Its characteristics will be: A petrochemical industry in rapid development and, with high profitability, will be in the lead and spur on the overall development in related industries. Advanced technologies will begin to be used on a large scale, profits and accumulations will increase by leaps and bounds, and markets will greatly expand. The leading sector will not only spur on the developments in sectors that supply its requirements, but will also be able to promote development in industries that are receiving supplies from it. There will be an industrial structural system with machinery for overall and fullest coordination, created by mutual linkages. There will be advances in an orderly and harmonious way, which will promote an overall social and economic upsurge throughout the entire SEZ.

(6) At the time when exploitation and utilization of the oil resource will gradually wither and profitability decline, the capital and new investments may be shifted to newly emerging industries which had started employing new technologies and are showing good profitability, and in this way will form a new industrial structural system. When this system will start to show signs of decline, another new industrial structure will emerge in replacement of the former. In this progression there will be uninterrupted advance.

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## LABOR AND WAGES

### TIAN JIYUN ON WAGE REFORM

Hong Kong CHING PAO [THE MIRROR] in Chinese No 2, 5 Feb 86 pp 26-28

[Article by Yu Ying [0205 5391]]

[Text] In early January, Vice Premier Tian Jiyun [3944 4764 0061] delivered a report on the economic situation and the restructuring of the economic system in China at a meeting at Beijing's Great Hall of the People attended by 8,000 cadres from CPC organizations. Some Hong Kong newspapers carried the full text of the report, a lengthy speech which dealt with, among other things, an issue of widespread concern--wage and price reform. Tian Jiyun claimed to be expressing only "his own opinions and understanding," but sharp-eyed people realize at once that it was an authoritative statement examined and approved by Deng Xiaoping, Hu Yaobang, Zhao Ziyang and the heads of the Financial and Economic Leading Group of the central government, Chen Yun and Li Xiannian.

#### Tian Jiyun Heads an Investigation Team To Study Reform

With the exception of one overseas trip which attracted considerable attention, Tian Jiyun spent the entire winter after the close of the CPC National Party Congress last fall mostly away from the political stage, which prompted some to conclude, mistakenly, that a "rising star has suddenly fallen."

In reality, since Beijing University students staged an anti-Japanese demonstration on "18 September" and perhaps even as early as the Chinese-Hong Kong soccer match disturbances in Beijing on "19 May," there have been signs of public dissatisfaction with the changes and pressures in daily life caused by wage and price reform. As anti-Japanese agitation spread to many large and medium-sized cities across the nation, the dissatisfaction intensified. Tian Jiyun, who oversees urban economic reform for the State Council, might declare that "price adjustment was implemented only after careful planning. The measures are appropriate and no drastic repercussions have resulted. The reform is a success." At the urging of leaders on the CPC Central Committee, however, he had no choice but to put together a team and visit several cities of varying sizes to study the impact and consequences of the reforms in depth. It is this large-scale and lengthy study, rather than the above-mentioned report, which explains Tian Jiyun's reentry into Beijing's political arena.

## "Public Office As A Way To Make Money"

Wage reform has been under consideration in China for a long time. A host of reform schemes have been the subject of speculation since the "Cultural Revolution." When the leftists were at the peak of their power, "bourgeois rights" and the "eight-tier wage system" repeatedly came under fire and an ultra-egalitarian "supply system" was put forward which would have abolished currencies and commodities. The latest effort at wage reform, for which Tian Jiyun is directly responsible, has been the most popular conversation topic among 100 million urban workers since 1984.

When it was founded, new China copied the Soviet system. Over the years, this system has become more and more ridden with ailments. In every trade and industry, the wage scale was fragmented into too many levels; there were 28 grades of cadres alone. The power to raise wages was centralized in the hands of the central government; all localities, enterprises and organizations had no autonomy in this area. Rarely were wages adjusted and then only to ameliorate the gross weaknesses in the system. Wage adjustments, moreover, took no account of individual circumstances and sought to impose uniform percentages. Since whether or not a worker was given a pay raise depended on his performance, this led to much competition and a failure to compromise among workers. The upshot was all manner of conflict and estrangements.

The latest wage reform tried to cut the Gordian knot. First, a "structural wage system" whose centerpiece is functional wage was adopted in state organs and institutional units. Specifically, besides the 40 yuan basic wage and seniority wage calculated on the basis of 50 fen per year (not to exceed 20 yuan), the major component of a worker's wage is the functional wage. The president, vice president and premier of the PRC occupy the highest rank and are each paid a functional wage of 480 yuan. They are followed by the vice premiers, vice chairmen of the standing committee of the National People's Congress, vice chairmen of the Chinese People's Political Consultative Conference [CPPCC], ministers, vice ministers, department and bureau directors, deputy department and bureau directors, section directors, deputy section directors, office directors, deputy office directors, office members, office workers and so on. An office worker of the lowest rank earns 24 yuan in functional wage, equivalent to one-twentieth of the highest functional wage.

The initial response to the wage reform plan was rather critical as it only spelled out the functional wages of various levels of administrative officials and was totally silent on those of professionals in the intellectual circles, including science and technology, academia, engineering, arts and the media. Although the wages of researchers, professors, lecturers and engineers were pegged to those of cadres below the ministerial level, most in effect ended up with just their existing wage plus seniority wage. Yet in terms of their public contributions, some experts, scholars and artists exercise a far more significant impact on society. In the West, countless scholars and experts earn much more than heads of state. That was true even for China before the "Cultural Revolution." The latest move to elevate dramatically the wages of top party, government and military leaders is tantamount to abandoning the

"Paris Commune" concept of the "public servant" and replacing it with the idea of the "public master."

As China moves to build up a generation of young leading cadres, administrative officials at all levels are now basically selected from among young cadres in the more junior ranks. Clearly they are the people who benefit most from the new wage reform plan. On the other hand, intellectuals and managerial personnel in general do not hold concurrent official posts. As far as they are concerned, wage adjustment mean only a marginal pay increase. In recent years, China has declared time and again its "high regard for knowledge" and "intellectuals." The wage reform scheme, which makes wages dependent on one's official rank, has given the lie to its declarations and, on the contrary, turned public office into a way to make money.

#### Fine-tuning the Reform Plan To Silence Criticisms

The wholesale wage adjustment was originally scheduled to take effect last July, but because of complicated circumstances in the various units and the fact that the formulation of a new wage plan is a time-consuming process, actual implementation was put off. To show its concern for the "engineer of the human soul"--the teacher, the CPC Central Committee specially ruled that new wages must be paid to teachers before Teachers' Day on 10 September and granted them a teaching seniority wage computed on the basis of 1 yuan a year. This is in addition to the regular seniority wage.

The wage reform resulted in the abolition of all existing wage levels, bonuses and floating wages and in a negligible increase in the real wages of most wage earners. Because of a lack of expertise or research ability, a number of middle-aged and young teachers at some universities have given up teaching to become administrative cadres and actually ended up with much higher earnings thanks to their new official ranks. The same phenomenon has occurred in scientific research units, professional organizations and elementary and high schools. When learned and well qualified professionals saw what was happening, they naturally felt a profound sense of injustice. In Beijing, many new and academically accomplished university teachers have successively been promoted associate professor or lecturer. As in the past, this type of promotion only influences one's teaching or research standing but carries no monetary reward. Nowadays, only people who are promoted into the various university, departmental or party committee offices as officials can expect an appreciable rise in wages, effectively sowing the seeds of discord between university teachers and administrators, on the one hand, and managerial cadres, on the other. Some university teachers in Beijing even briefly refused to accept the new wages.

The latest wage reform provides that nobody's wage would be cut. As the existing wages of some elderly members of the CPPCC and retired cadres exceed the maximum allowed their ranks under the new scheme, the government issued a special circular retaining their old wages. To the elderly folks, this move smacked of the "buying-out policy" adopted toward the holdovers in the early years of the PRC. How could they, who risked the deadliest of dangers for the country for many years, put up with it? An uproar ensued which died down only when the authorities concerned made provision for special wages.

A number of "trends" have come and gone in China in recent years. In the past, there was disdain for people who worked as officials; it was considered a "thankless" job. Now everybody scrambles to get on the official bandwagon as a way to make money. Also, a number of elderly leaders and cadres about to retire are only too glad to do their subordinates, friends and relatives a favor by promoting them or placing them in an official job. Some have even proposed that their department or unit be upgraded so that everybody would get a wage increase. For a time departmental "upgrading" and cadre promotion became all the rage, prompting the central government to issue a circular imposing strict restrictions. In addition, the government also acted to limit the amount of additional pay new cadres at various levels could receive during the first year: office director and below, 20 yuan per month; departmental or bureau director, 30 yuan; minister and above, 40 yuan. Only after July will they be paid in full. Although these measures only temporarily bridged the earnings gap, they did mollify a number of critics. As for the wages of enterprise workers, the government decided to increase bonuses (to an amount equivalent to 4 months' wages instead of the original 2 1/2) to achieve some sort of a balance.

#### Reasonable Remedial Measures to Perfect The System

As Tian Jiyun said in the report, the old system was extremely irrational and ridden with problems: "labor was divorced from compensation, and duties bore no relationship to rank." The new system achieves "the ranking of administrative duties" and brings about a more logical relationship between labor and compensation, but "imperfections remain." Tian Jiyun said, "We should focus on these two priorities this year: getting rid of whatever does not make sense and establishing a sound ranking of technical duties."

Wage reform is a vital policy that affects the people's basic interests, so there is no excuse for the kind of glaring weaknesses it suffers from. Also, China being a vast country where the levels of economic, educational and scientific development vary tremendously from region to region, there is a danger that wage reform may err by overemphasizing centralization and uniformity. Of course, if we look at the direction of reform, we see that the reform is still a historic advance. It is not my intention to be a cheerleader for leftists and conservatives. I only hope that reformers, in addition to being men of action, also have the statesman's vision, brilliant thinking and ability to control the overall situation.

Reports suggest that experiments in the ranking of technical functions have been carried out since last summer in a number of selected departments. In the media alone, units like the Xinhua News Agency, RENMIN RIBAO, JINGJI RIBAO and Central Radio have been ranking their news-gathering and editorial personnel as assistant reporters, reporters, chief reporters, senior reporters, assistant editors, editors, chief editors and senior editors, corresponding to cadres at the office, section, departmental, bureau and ministerial levels in terms of functions and wages. Other departments, such as those in scientific research, culture, education, arts and public health, are also in the midst of pilot projects and studies in order to formulate plans to remedy the weaknesses of the wage system.

It can be said that the success or failure of wage reform hinges on our ability to fashion a strict, sound system that will remain effective for a long time to come and enjoy popular support among the people.

As the person in charge of wage reform, Tian Jiyun carries a heavy responsibility.

Clearly 1986 is going to be a critical year.

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POPULATION

BRIEFS

LIAONING FAMILY PLANNING--During the 6th 5-Year Plan period, 2.563 million babies were born in Liaoning Province, 780,000 fewer than planned. During these 5 years, the province's net population increase was 1.981 million. The total population grew from 34.869 million in 1980 to 36.85 million in 1985. [Excerpt] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 25 Feb 86 SK] /9599

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